Disclosure According to the Third Pillar of Basel and Additional Information Regarding Risks

Link to an accessible report

Disclosure according to the third pillar of Basel and additional information regarding risk

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The meeting of the Board of Directors held on March 8, 2022, in the framework of approval of the Bank's 2021 annual report, decided also to approve and publish the report in the matter of "Disclosure according to the third pillar of Basel and additional information regarding risks". For further relevant information, the "Risks review" chapter in the Board of Directors and Management Report should be viewed.

Principal regulatory ratios and review of risk management and risk assets

Principal regulatory ratios (KM1)

	31.12.2021	30.09.2021	30.06.2021	31.03.2021	31.12.2020
			in NIS millions		
Available capital					
Common equity tier 1	21,839	21,719	21,099	20,333	19,707
Common equity tier 1 before applying the effect of the transition	21,590	21,443	20,752	19,951	19,331
Tier 1 capital	22,017	21,897	21,277	20,511	20,063
Tier 1 capital before applying the effect of the transition	21,590	21,443	20,752	19,951	19,331
Total capital	28,988	28,271	27,673	25,722	25,233
Total capital before applying the effect of the transition	28,413	27,643	26,879	24,853	24,168
Weighted average of risk assets					
Total weighted average of risk assets	**215,321**	**211,148**	**205,255**	**199,327**	**193,232**
Ratio of capital adequacy in accordance with instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.14	10.29	10.28	10.20	10.20
Ratio of common equity tier 1 before applying the effect of the transition	10.01	10.12	10.09	9.99	9.98
Tier I capital ratio	10.23	10.37	10.37	10.29	10.38
Tier I capital ratio before applying the effect of the transition	10.01	10.12	10.09	9.99	9.98
Ratio of total capital	13.46	13.39	13.48	12.90	13.06
Ratio of total capital before applying the effect of the transition	13.17	13.07	13.07	12.44	12.48
Ratio of common equity tier 1 required by the Supervisor of Banks	8.16	8.16	8.16	8.17	8.18
Ratio of common equity tier 1 over the required by the Supervisor of Banks	1.98	2.13	2.12	2.03	2.02
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	**368,120**	**346,679**	**340,170**	**334,052**	**319,222**
Leverage ratio (in %)	6.0	6.3	6.3	6.1	6.3
Leverage ratio before applying the effect of the transition (in %)	5.9	6.2	6.1	5.8	6.1
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	**67,627**	**66,886**	**66,700**	**66,852**	**64,815**
Total cash outflows	**54,958**	**51,421**	**48,031**	**45,913**	**43,937**
Liquidity coverage ratio (in %)	123.1	130.1	138.9	145.6	147.5
Net stable funding ratio according to Directives of the Supervisor of Banks					
Total Available Stable Funding (ASF)	**226,437**				
Total required stable funding (RSF)	**178,661**				
Net Stable Funding Ratio (NFSR) (in %)	126.7				

The year 2021 was also overclouded by the Corona crisis. The spread of the virus has led to a major economic crisis in 2020 that has affected the economy, including the banking sector and the Discount Group. A wide scope vaccination effort followed by a halt in the pandemic enabled the removal of the restrictions and in consequence thereof, recovery in economic activity has occurred during 2021. The Bank's financial base and its capital infrastructure remain stable and are being stringently managed. The ratio of equity capital Tier 1 amounts to 10.14% and the liquidity coverage ratio amounts to 123.1%. This is the capital infrastructure that allows the Group to continue growing.

General background and general reporting principles

General background. The report presented below ("risk report") has been prepared in accordance with the reporting directives of the Supervisor of Banks regarding "disclosure requirements detailed in the third Pillar of Basel and additional information regarding risks". The said Directive adopts the disclosure requirements detailed in the third Pillar of the work framework and instructions of Basel III, and in addition, disclosure requirements published by the Basel Committee and disclosure requirements based on other sources, including disclosure requirements published by the Financial Stability Forum (FSF) and the disclosure requirements published by the task team formed by the Financial Stability Board (FSB), for the improvement of risk disclosure in banking corporations. Within the framework of the updated directive, the quantitative and qualitative disclosure requirements have been changed.

General reporting principles. Towards the publication of the first risk report, as part of the annual report for 2015, general reporting principles had been determined, that were validated and updated within the framework of the preparations for the implementation of the updated reporting directive, all subject to the reporting directives.

- The risk report is an integral part of the annual report, and respectively, the processes applying to the annual report shall apply to it (including: controls and procedures regarding internal control over financial reporting (SOX), statements by the President & CEO and the Chief Accounting Officer regarding the disclosure);
- In order to present an appropriate report and avoid repetition of details, it has been determined that the principal disclosure document in the risk management field would be the risk report. With respect to issues requiring disclosure in two of the documents – the extended disclosure shall be presented in the risk report while in the Chapter "Risk review" in the report by the Board of Directors and Management a very concise summary shall be presented, with reference to the risk report. With respect to issues that require specific disclosure relating to the "Risk review" Chapter – disclosure would generally be presented only in this chapter;
- The risk population to which the Bank applies, will be in conformity with the risk identified and presented in the process framework of Internal Capital Adequacy Assessment (ICAAP);
- The disclosures will describe the principal activities of the Group and the significant risks, based on relevant data and information;
- The disclosures will include qualitative information and sufficient quantitative data regarding procedures of the Group for the identification, measurement and management of risks. The level of details given in the disclosures should be proportional;
- In order to assist users to understand in an optimal manner the Group's risk tolerance/risk appetite, the disclosure shall be flexible in a way that enables to reflect the manner in which senior Management and the Board of Directors assess and manage risk and strategy internally within the organization;
- A mechanism of a controlling nature has been established securing the appropriateness and relevancy of the disclosures included in the report, based on the work processes applied in the framework of assessment of the capital adequacy (ICAAP) and of the preparation of the quarterly risk document;
- Attention should be paid to especially material changes in data and to the study of the need to provide explanations for such changes.

The banking corporation's approach to risk management

For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see in the Chapter C to the Directors and Management Report - "Risks review".

Principles of risk management

The field of risk management continues to comprise an essential component of the operations of a banking corporation. The concept of risk management as well as the risk management culture is embedded in current operations, in material processes and in the processes for business decision making, as an integral part of the activity.
Exposure of the Bank and of the Group to different risks are being tested on a current basis in the three lines of defense, and is being conducted from an overall Group and forward-looking standpoint.
The Board of Directors and Management assign great importance to risk management aspects and to the absorption by the Bank and its subsidiaries of a proper risk management culture, while allotting the required resources for this purpose and determining focuses in these fields as part of the Group goals. Within the framework of integration of the risk management culture, focusing on integration of compliance culture continues, in the center of which are the maintenance of fairness and decency in the sale and marketing of credit and in collection proceedings, as well as in the protection of privacy in operations, processes and systems.

Overall principles for risk management

- Risk management is performed from a Group integrated viewpoint, cross organization, using methodologies and consistent terms with reference to all types of risks to which the group is exposed.
- Group corporate governance, which supports the maintenance of an effective chain of control over the activity of the group, subject to the provisions of the law.
- Responsibility for risk management is hierarchical, where each managerial level bears responsibility for the risks existing in its scope of operation, in a manner ensuring aggregation of risk management at all management levels up to the member of Management in charge of the business line, including the maintenance of proper procedures for identification, measurement, assessment, control, monitoring and reporting of risks.
- A senior officer in the position of member of Management is assigned to each of the material risks to which the Group is exposed. He bears the overall accountability for management of the risk in the first line of defense.
- The risk management concept supports the eligibility and improvement of decision making processes and value maximization from a long-term viewpoint.
- The organizational culture encourages transparency and an effective intra-organizational communication, while allowing for a proper flow of information, including in respect of violation/failure events, to all the functions involved in the handling of risks.
- Risks are being managed while maintaining the separation of duties and controls between the defense lines involved in risk management.
- A dynamic and evolving over time risk management concept in accordance with changes in the requirements of the Bank and the Group, regulatory instructions, accepted practice in Israel and around the world and conditions in the inner and external environment.
- Risk management is conducted on a continuous basis, from a forward looking viewpoint, which includes processes of identification, measurement, assessment, monitoring, control and current reporting of exposure to risks, management thereof and their implications on the risk profile, alongside the identification of materializing and new risks (such as business model risks, model risks, privacy protection risks, chain of supply and more).

- The risk management processes include proactive measures for risk management and for the formation of an effective organizational culture and the integration of control culture, the integration of fairness and decency values in operations and processes.
- The risk management processes are integrated as part of the current business activity, and they are integrated into material processes and projects at the Bank and the Group, including implementation of new product processes, where required.
- The policy and remuneration procedures in the Group, promote attainment of the Bank's goals and integration of an effective risk management culture, and do not encourage acceptance of exceptional risks or risks exceeding the defined risk appetite.

Group risk management

The group risk management is an integral part of the Bank's risk management concept.
The Board of Directors and Management of the Bank are responsible for the supervision over the risk management processes involved in the activities conducted by companies in the Group, for forming effective frameworks for group processes and for the verification of the existence of proper control and supervision mechanisms.
The business strategy, the policy and corporate governance aspects are being conducted from a group viewpoint and support the existence of an effective chain of supervision over the activities of the Group.
In this framework, various functions have been defined having group responsibilities, for forming and strengthening mutual interfaces and involvement in significant decisions taken by subsidiaries, including the formation of group forums and orderly reporting processes by subsidiaries.
The risk management function at the Bank (as have additional functions) has group responsibility and has the duty to verify that the risk management processes, the tools and reporting format of the subsidiary companies match the group processes and tools, with modifications due to the characteristics of the unique activities of the subsidiary companies and their relevant regulation.
As a result, policy documents, tools, methodologies and infrastructure developed by the parent company are delivered to the subsidiary companies, which are responsible for their adoption, subject to adjustments required by their special operational characteristics. The Group acts continuously towards the improvement and tightening of the management, supervisory and control capabilities of the Group, and for the improvement of Group management capabilities, while establishing strategic moves from a Group standpoint and utilizing synergies within the Group.
Moreover, the Group Management and Regulation Division operates at the Bank, designated to increase the value of the Group subsidiaries by way of improvement of Group management and coordination.
Risk managers at the subsidiary companies administratively subject to the CEO of the subsidiary, but professionally act in conjunction with the Group's CRO.
The parent company (the Bank) holds periodic discussions regarding material subjects and issues of risk at the material subsidiaries, and also conducts a periodic monitoring of operations and development of risks.

Risk management Policy and its Objectives

The risk management concept formed by the Group is in accordance with directives of the Supervisor of Banks and accepted practices in the world. The risk management concept is established in a series of policy documents for the management of the various risks. These are approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the roles of the Board of Directors, Management and the definition of authority and responsibility of the functionaries taking part in the risk management processes. Furthermore, the documents define the tools and mechanisms for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.

The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments.

The policy documents are being updated from time to time, in accordance with changes in the regulatory and business environment and new policy documents are being initiated in accordance with the identification of forming and developing risks.

The risk management policy documents together with the Group's strategy, the risk appetite and the limitations under it, the capital and liquidity planning, and the work plans comprise the basis for the formation of specific policy documents as well as the regulation of areas of responsibility and authority of the different control functions, within binding work procedures.

The Bank and the Group are implementing ongoing effective processes of regulation, identification, supervision, monitoring, reporting and control processes regarding risk management and perform the monitoring of the Bank's and the Group's risk profile, and by means of different quantitative and qualitative indices.

The various policy documents express and provide a supporting framework for methodologies, tools, models and infrastructure established by the Bank. In this respect, we should note the use of various quantitative tools enabling the management of risk through varied statistical models (such as models for the risk rating of borrowers, models for assessment of market risks, etc.) as well as by means of methodologies and qualitative tools allowing an orderly and systematic process of identification, evaluation and monitoring of developments in risk and exposure. Alongside tools used for the current management of risk, the Group uses various scenarios in order to examine the exposure to risks under various scenarios and stress situations, as detailed hereunder.

The methods and work procedures regarding risk management, in Israel and abroad, are examined and updated from time to time, in line with changes in the competitive environment and in the business, internal and regulatory environment. The pace and dynamism of the changes in the banking world require that the risk-management tools, methods and infrastructure be constantly reviewed and improved.

Risk management corporate governance

The Discount Group adopts a corporate governance framework in accordance with the Basel guidelines and the directives of the Supervisor of Banks, established as stated, in a series of infrastructure and policy documents regarding the various risks.

The Board of Directors, its committees and the Management place considerable importance on the existence of a risk management culture, aspiring to strengthen the professional standing, the independence and performance of the lines of defense, with a focus on the primary responsibility of the first line of defense for risks management. Divisional control functions operate at the business divisions, which comprise the risk management and control arm of the division and these accompany, and are involved in all the fields of activity that the division accompanies, so as to ensure that the risk management considerations are considered in the decision-making processes and that the risk-management and control aspects are adequately deployed.

The risk management structure at the Bank includes: the Board of Directors, Management, and three lines of defense, as detailed below.

The organizational structure of risks management

The Board of Directors

The Board of Directors is responsible for the Group's business affairs for its financial solidness and stability, and its operating framework is defined in accordance with Proper Conduct of Banking Business Directive No. 301 and Proper Conduct of Banking Business Directive No. 310 and is established in work procedures supporting its activities and the activities of its different committees.

The Board of Directors is responsible for outlining the strategy and for approving the policy that guides the Group in its ongoing activities. In addition, the Board of Directors is responsible for setting the risk appetite, for outlining the risk management policy and for monitoring senior management's actions, so as to ensure that these align with the risk appetite, and the changes in the activities and the risk environment.

The operation of the Board of Directors is performed by the plenum of the Board and/or by its sub-committees on different subjects, by means of current, periodic and designated discussions, including from a Group standpoint.

Control and monitoring of risk management are conducted by the various committees of the Board, the principal of which are:

- **The Board of Directors' Risk management committee.** The committee assists and advises the Board in fulfilling its duties, verifying the existence of effective risk management processes in the Bank and in the Group. The Committee discusses and recommends to the Board on a policy for the management of the various risks and supervises the implementation of the policy determined by the Board. The committee convenes at quarterly intervals, meeting also as the U.S. risks management committee;
- **Audit committee.** The committee examines the effectiveness of the internal control group through the various audit and control functions, monitors their findings and, among other things, is responsible to advise to the Board

ways in which to rectify them. For the purpose of fulfilling its duties, the audit committee relies on the independent control functions, including the internal control division, the compliance functions, internal enforcement, money laundering and finance of terror prohibition functions.

- **Technologies Committee of the Board of Directors.** The Committee helps and advises the Board of Directors in fulfilling its duties, in verifying the existence of effective risk management processes at the Bank and in the Group from the technological aspects, including cyber and data protection. The Committee supervises the application of the policy determined by the Board of Directors regarding cyber areas, technology and innovation, recommends the approval of new technological products requiring approval by the Board of Directors, in accordance with the policy of the Bank, and supervises the progress of material technological projects of the Bank and of the Group. The Committee meets at quarterly intervals.

Management

The Bank's Management has many responsibilities as regards the risk management in the Bank and the Group, with a focus on outlining the Tone at the top, including the support for risk management processes. The policy documents (see above) include wide references to the tasks of the Management as an "organ" in the risk management field, where, in general, each task under the Board of Directors' responsibility, requires the prior attention of the Management: holding preliminary discussions, performing control and supervision tasks and forming recommendations for the Board of Directors. The Management is responsible for applying the risk management policy, maintaining control and supervision over the quality of risk management and the propriety of the risks measurement and evaluation. The Management acts through the Chief Risk Officer and the risk management division and through the Group risk managers' committee.

Committees and Forums

The Group risk managers' committee. A committee headed by the President & CEO and with the participation of the general managers of the principal subsidiary companies, the CRO and the risk managers of the principal subsidiaries. The committee holds periodic discussions, regarding all matters required to promote and improve across the board processes for risks management at the Bank and at the Group, including: methodologies, means and tools required for risk management, stress tests, business continuity, regulatory directives and best practice, aspects of risk management with regards to work plans and to strategic focuses.

Different committees and forums. In addition, different forums and committees operate within the framework of the Management, which contribute to and assist the Management in its risk management tasks. The principal forums and committees headed by the Chief Risk Officer, or anyone on his behalf, are: credit policy forum, measurement forum, pricing and risk adjusted performance evaluation, stress tests forum, model validation committee, new products committee, the committee for the prioritization of technological projects for the implementation of regulation, operational risks management committee, an independent review committee, a group allowance committee, market and liquidity risks forum, operational risk controllers forum, compliance officers of the Group forum, and more. Furthermore, a large number of designated committees regarding different fields of activity operate at the Bank. These committees are, among other things, involved in the risk management process. Among these may be mentioned the various credit committees, assets and liabilities management (ALM) committee, and more.

The committees of the Board of Directors, the Management committees and the various forums, assist the Management and the Board of Directors in conducting in-depth and focused discussions, while analyzing and examining alternative to a decision, contributing to the improvement of the quality of control and the risk management at the Group.

Lines of defense

The risk management concept at the Group is based upon three lines of defense participating in the current risk management. An understanding and internalization of the responsibility and the division of responsibilities between the lines of defense, which is regulated by a series of policy documents in risk areas.

- **Risk takers (First line of defense).** All units of the Bank that take risks, and in particular business units, are responsible for the current management of such risks by means of identification, measurement, monitoring, control and reporting processes, conducted by functions in the unit, and/or in designated control units. These units operate in accordance with the risk management policy and within the limits of the risk appetite and specific restrictions determined by power thereof. Most divisions operate designated control functions, which are guided professionally by the risk management division and which support the division heads in the management of the risks accepted within the framework of their activity.
  In recent years, the Group has strengthened their status, qualification and independence of the control functions operating within the first line of defense, including the increase in resources allocated for the support of their operations.
- **Chief Risk Officer and the Risk Management Division (Second line of defense).** This line of defense is responsible for the overall risk management framework at the Bank. See below.
- **Internal audit (Third line of defense).** The internal audit is subject to the Chairman of the Board, and as such, independent of the first and second lines of defense, and assisting the Management and the Board in the efficient and effective realization of their duties and responsibilities. Among other things, the internal audit conducts a current and independent review on the risk management procedures and of the evaluation of the Group's risk profile, including efficiency and effectiveness of controls and of the resources allocated to a proper risk management, as well as an examination of the reliability and timing of reports to the Supervisor of Banks and to regulatory authorities.

Risk Management division (second line of defense)

Heading the Division is the Chief Risk Officer, who is also a member of the Management who reports to the President & CEO independently from the business lines that create the risk. The Chief Risk Officer is required also to assist the Board of Directors in fulfilling its duties regarding risk management, and he has full access to the Board of Directors and to the Board's Risk Management Committee. The Chief Risk Officer is responsible for the management of all risks at the Bank and the Group, within the framework of the second line of defense.

Risk management has been defined by the Bank as a function having Group responsibility. Accordingly, special emphasis is being put on tightening the interfaces with the subsidiaries and the overseas extensions and on the guidance provided to them regarding the adoption of processes and tools in methodologies determined by the parent company, with the required adjustments and to discuss risk issues and material projects, which impact the risk profile of the subsidiaries.

Among the main tasks of the division may be mentioned:

- Identification and correct evaluation of the exposures and the identification of existing and developing risk centers;
- Verification of capital adequacy, ensuring the long-term stability of the Group, taking into consideration, among other things, changes in exposures and in the business and regulatory environment, and compliance with risk appetite as determined by the Board of Directors. This, while using a variety of methods and tools, ensuring the Group's capital adequacy, in the ordinary course of business and under various stress tests;
- Support and involvement in material processes, such as accompanying processes regarding strategic planning, capital planning, the finance strategy, remuneration, planning of work plans, introduction of new products, central projects, innovative projects, computer projects etc., this alongside support of decision making processes, such as providing an opinion on credit applications and on investments that involve a material credit exposure and approval of ratings, classifications and allowances. This, with the aim of verifying the integration of risk management aspects in these processes and the examination of their effect on the risk profile at the Bank and the Group;

- Current reporting to the Management, to the Board of Directors and to committees of these organs, as a risk based management tool;
- Responsibility for determination of credit ratings and/or their approval.
- Responsibility for the appropriateness of classifications to problematic debts and expenses for credit losses.

The Risk Management division combines under it the independent functions of risk management, comprising the units managing credit risks, market and liquidity risks, operational risk, (which also combines under its responsibility the fields of IT risk management, cyber risk, embezzlement and fraud risks, business continuity risks) as well as the compliance risk units and internal enforcement, and prohibition of money laundering and finance of terror risks, cross-border risks and FATCA, and model risks. The managers of the risk management units operate, as stated, as the second line of defense and conduct a variety of processes for the measurement, evaluation and control of risk and the development of methodologies and models. In addition, the Chief Risk Officer is responsible for control functions, including the credit controller, second opinion units, including on credit ratings and on the appropriateness of classifications and of expenses for credit losses, as well as supervision and evaluation function, which conducts supervision and control procedures over subsidiaries and overseas extensions, as well as the overall risk assessment processes, including management of the annual Internal Capital Adequacy Assessment Process (ICAAP). Furthermore, Information Systems and Infrastructures Unit operates within the framework of the Division, providing support for the promotion and management of risk management systems.

Risk management tools

The Group develops and implements different tools supporting risk management processes, which enable identification, measurement and assessment of risk, based on a variety of tools and methods, which include quantitative and qualitative components. These allow a review of exposures and the changes therein, under different scenarios, including cross-organization risks and risk concentration. The following tools may be mentioned in this respect:

- **Risk appetite –** one of the central tools used by the Board of Directors for the supervision of the risk profile of the Bank. The risk appetite outlines the borders of the area of operation and is applied in correspondence with the strategic outline and the capital outline. The risk appetite includes quantitative and qualitative components relating to all types of risk.
- **Limitations, indicators and alert levels –** by power of the risk appetite statement, specific risk appetite documents are created with respect to material risk areas, which outline the determination of the Group's business policy as regards such risk areas, and which include limitations, risk targets and/or alert levels designed to ensure compliance with the quantitative limitations and with qualitative goals determined in the statement. Limitations are being monitored on a current basis and are periodically reported to the Board of Directors.
- **Development and validation of models –** The Group operates in accordance with a multi-annual work program for the development of advanced models, with an emphasis on the development of advanced models for the risk based rating and pricing of credit, in accordance with accepted methodologies in this area. In this framework, use is also being made of advanced systems for the development of models (based on Big Data and Machine learning).
- Concurrently with the development of the models, periodic validation of these models is made, at intervals and preference determined according to the model's risk level and to changes in the models or in the economic environment. New models are put into use only after a validation process and the approval of the model validation committee.
- **Scenarios and stress tests –** The Bank uses different forward looking scenarios and stress tests as supplementary tools for the risk management processes, which support capital planning processes, determination of the risk appetite, proof of capital adequacy and the identification of vulnerable areas (see extended discussion in the Chapter on capital adequacy). The results of stress tests are discussed with the business factors and support the determination of the business policy and of pricing. Moreover, in accordance with the results of stress tests, the Bank forms various contingency plans with the aim of supporting the deployment of the Group for various crisis situations.

- **Risk surveys –** the Group applies periodic processes for the performing of risk surveys in different areas, as detailed below. The risk surveys enable the periodic identification and assessment of risks to which the Group is exposed, and allow the dynamic management of exposure maps and of the supporting risk reduction plans.
- **Risk profile assessment –** the Group conducts a current follow-up of changes in the risk profile of the Bank and of the Group companies, based on the Group's tools, models and methodologies, and regarding periodic reporting processes. The principal changes are reported in the risk document, which is discussed by Management and by the Board of Directors. The assessment of changes in the risk profile is based on monitoring, control and reporting of changes in risk profile processes, as well as compliance with limitations, indicators and various alert levels, including in comparison with the banking sector. In this framework, Management and the Board of Directors also reviews material changes in quality and effectiveness of the risk management.

Risk culture and absorption of the usefulness of risk management processes

The Group acts on a continuous basis towards the improvement and strengthening of the risk management processes, with a view of establishing and leading a proper risk management culture. Management and the Board of Directors guide the exact and uncompromising implementation of regulatory rules, including the verification of their integration into the relevant factors.

The tone at the top constitutes an important and significant role in outlining and assimilating this culture at the Bank and at the Group, while providing a personal example and importance for the integration of risk management processes as an integral part of current management and decision making processes, and while allocating the necessary resources required. Main emphasis was given to integrating risk-based goals, as support for the measurement of business performance. Accordingly, the risk management division follows and is involved in central processes from their inception, in order to verify that risk management considerations are integrated as an integral part of business activity.

Assimilation of risk management culture, the usefulness of the tools, the methodologies and the models being developed at the second line, in the business processes and risk management processes at the first line, are being performed, among other things, by means of tutorials, conventions, training sessions, integration, controls and audits.

Integration in business and strategic processes

The risk management division accompanies the progress of implementation of the strategic plan and the work plans, as from the planning stages, while periodically monitoring and controlling the risk management aspects of these plans and their impact upon the risk profile of the Bank and the Bank Group. Within the framework of the operations of the division, tools and methodologies are being integrated for use of the first line, which support the assessment of risk in the different operations and projects, including integration of mitigation plans and monitoring and control infrastructure, which support risk mitigation.

Representatives of the division accompany the progress of the various strategic projects, and the concept of risk management is also being integrated into the various projects, including the establishment of the periodic assessment of project risks and review of the appropriateness and progress of the different reduction plans.

Integration of risk management aspects as an integral part of the project management processes, as well as assessment processes by the divisions with respect to the effect of their different plans on the risk profile constitute, in the opinion of the Bank, an important layer in the absorption of the risk management culture and in increasing the usefulness of the process.

Moreover, a management stress and focus is applied to the establishment and updating of information infrastructure and performance measurement, in supporting the implementation of the strategic plan and of work plans, where alongside the business goals, risk based goals and measurement have also been integrated, as part of the plans for motivating and remuneration of employees at the different management levels.
For additional details regarding the integration of risk management aspects in the policy and in the remuneration plans, see below.

Approval of new products

The introduction of new products/operations requires performing an orderly and systematic process ensuring the identification and evaluation of all risks inherent in the new product/operation, while examining their effect on the risk profile, among other things, by means of materiality thresholds, and verifying the propriety of the infrastructure and controls supporting their operation. The said process has been established in a designated policy and in supporting work procedures applied by the Bank and the Group. The main subsidiaries have been guided to deliver for examination and approval of the parent company requests for approval of operation of new products that are material to the operations of the subsidiary, which may have an impact on the risk profile.
Integration of the process at the Group level contributes to the ability to identify and evaluate new risks being created, and verify proper preparations and hedge of such risks by means of supporting work processes, infrastructure and controls.
The widening of cooperation with fintech bodies are accompanied by instigating new product processes, which contribute to the understanding of the overall risks involved in the operations, and to the formation of mitigation means and supporting controls as well is to regulating these developing fields.

Risk based pricing

The Risk Management Division continues to integrate risk based pricing, which supports improvement of pricing and return on equity, while integrating a uniform language for risk adapted performance assessment into the Group companies, from the level of the individual transaction and up to the level of the principal lines of activity, while improving the allocation of risk assets among the business lines.
Goal for the return on the economic and regulatory capital have been integrated as part of the business goals of the various divisions and as an integral part of the Bank's business policy.

Accompaniment of the credit management processes

The risk management division is responsible for leading the credit policy in cooperation with the business functions, including the updating of the risk appetite and the determination of overall goal for risk management, including: the raising of the return on the economic capital, conduct aspects regarding risk adjusted pricing, maintaining the stability of the Group and the desired risk profile of the credit portfolio as well as the management of the credit portfolio on a Group basis. Concurrently, principles included in the Group credit policy are adopted also by the subsidiary companies, and the credit policy documents of the subsidiary companies are being challenged.
Furthermore, the risk management division is involved in the credit approval process, by way of the rendering of a second opinion, and the increased involvement in the quarterly process of examining the appropriateness of classification and the allowances for credit losses at the Bank and at the Group, and examination of the appropriateness of the process of control over classification and allowance process.

Planning and performance of risk survey and risk mapping

As part of the current management processes, the group performs periodic risk surveys of the different risk areas, such as operational risk and business continuation risk surveys, business impact analysis (BIA), infrastructure survey, compliance gaps survey, survey of risks and data protection in the systems of the Bank and the Group, risk mapping as regards the administrative enforcement field, and more. The surveys are performed by the first line of defense, in part independently and in part with the assistance of professional consultants, and support the process of identification and assessment of risk as well as the formation of supporting risk mitigation plans. These reviews are accompanied and challenged respectively by the second line of defense. The Group conducts cyclical processes to update the risk surveys, in accordance with a multiyear work plan, with the support and challenge of the identification and assessment processes, by the Risk Management Division.

Monitoring and control operations

Effective processes of risk management include the implementation of control, mitigation and monitoring operations, as part of the current operations of the defense lines control functions, which allow for a quick response to changes in the risk environment. The control operations include, among other things, reference to goal determination, limitations, indicators and warning threshold derived from the risk appetite and the monitoring thereof by means of defense lines according to the different risk characteristics, including the determination of a clear reporting format with respect to deviations and the establishment of current processes for testing the effectiveness of such processes.

As part of the different mitigation plans, efforts are gathered to verify the quality of existing controls, while endeavoring to computerize the controls (preventing, discovering, independent and compensating) in the array of operations at the different lines of defense.

The continuing improvement in the Group's organizational strength in the management of business continuity risk, by applying an operating concept, formation of supporting infrastructure, management of the BIA process, exercises and more.

Establishment of the professional position and qualification of the control functions of the first line of defense

The Group acts towards the continued strengthening of the control functions of the various divisions and groups, with a focus on the business divisions. Noted is the strengthening of their independence, qualification and position in the implementation of the duties assigned to them, including as integrators of knowhow also in areas of specific risk management, such as: compliance, prohibition of money laundering, operational risk (including risks of fraud and embezzlement) cross-border risks, technology, cyber and data protection risks as well as verification of qualifications in credit areas. Operational risk controllers and the group of compliance trustees operate in this framework at the divisions. Managerial focus was placed on the establishment of their position and professional qualification as integrators of control supporting knowhow. Operating routines have been devised for the control functions of the first line, and designated forums have been formed and reporting interfaces have been institutionalized. All these are being updated from time to time in accordance with the development of risk centers at the divisions and in accordance with changes stemming from the realization of strategic projects and technological changes.

The compliance officers and controllers group at the divisions supports the maintenance of proper processes for the verification of compliance to policy, procedures and to the limitations derived there from and the monitoring of violation and/or failure events.

Within the framework of the implementation of the provisions of Proper Conduct of Banking Business Directive No. 308, risk compliance managers have been appointed at the Divisions, who are responsible for the implementation of the instructions mapped within the areas of their responsibility.

Training, exercising and integration of risk management culture

A central focus of the assimilating activity has been directed to the structuring of the training and integration layout from a risk based outlook. Operations are performed by representatives of the risk management division and/or by means of the control functions at the divisions, while being assisted by the Bank's training group and the product managers.

Assimilation processes are conducted in respect of target population as well as all Bank employees, which include, among other things, orderly training and guidance programs, conducting knowhow tests, formation of work routines and risk focused controls, the holding of seminars on various subjects related to the improvement of the culture, such as seminars for the drawing of conclusions, analysis of material failure events, etc. This, in addition to training processes in the business fields being conducted with a view of preserving the qualification of employees.

As part of the training, use has been made, among other things, of the organizational platform for distance learning, which allows organizational study by means of various study flashes, which the employee performs at his work station with a focus on regulation and control aspects.

Reporting layout

As support for current control over changes in the risk profile, orderly and uniform reporting processes are in effect with respect to various issues as defined in the policy documents, such as reporting of deviations from limitations, exceptional events, failure events/significant deficiencies/violations. This alongside orderly reporting interfaces on the part of the divisions and subsidiary companies with respect to concentrating changes in the risk profile, according to types of the different risks and periodic reports and reviews regarding principal operating centers and/or risks.

Material leading and developing risks

In accordance with the FSB's recommendations, a leading risk is defined as a development occurring in the bank's business environment that could have an adverse effect on its results in the coming year. A developing risk includes a risk, regarding which the timing of its materialization is uncertain, whose occurrence could have a material impact on the bank.

Following are details regarding the most material leading and developing risks.

Business model risks. Changes have taken place in recent years in the operating environment stemming, inter alia, from the acceleration in technical developments, erosion in income sources and increased competition in the banking and off-banking industry and this alongside the continuing effects that the Corona crisis is expected to have on the business results of the banking system.

The dynamism, the competition, the pace of changes, and the ongoing effects of the Corona crisis, alongside the continuation of the low interest environment and the erosion of the margins, lead to a higher business model risk (being part of the strategic risk) and require the Bank and the Group to examine forward looking, advanced and flexible solutions, which would ensure the continued positioning of the Group as a leading banking group also in the future.

Accordingly, the Group updates annually the list of strategic projects, emphasizing the continuation of efforts regarding strategic focal points, alongside consistent examination of changes in international and domestic banking. The Group directs significant efforts to the technology, data, and the digital fields, customer experience, innovation (Fintech) and the development of models for new banking.

Such changes, with an emphasis on innovative and technological projects, naturally lead to an increase in third party risks, especially as regards aspects of supply chain, quality and control protection, exposure to cyber risks, leakage of information and protection of privacy. The Group acts to continuously improve tools supporting risk management, including the updating of policy documents, establishing standardization, contractual regulation and processes as well as introducing "new product" processes to new operations or products.

Furthermore, with the focus intensification on technology-based banking and expertise, so does the need develops for proper management of the transformation required in the workforce and its suitability, along with developing the ability to continue attract and retain personnel in the fields of technology, cyber, models and analysis.
Alongside the initiation of new projects for improving the Group's preparations towards future banking, crosswise and continuous processes are being implemented, supporting and improving traditional banking processes through improving and making accessible the operations with customers and improving the services. Also adopted are steps for increasing efficiency and reducing expenditure, including by means of operational efficiency and digitation of processes.
Cyber risks and data protection. Cyber risk continues to comprise one of the significant and developing threats in the world generally and in the banking system in particular. The level of ingenuity, the complexity of the attack and the variety of methods are increasing and so is the involvement of organized crime factors and of government agencies. The threat is intensifying, because due to business competition, and the aspiration to achieve a position in the technological front, the scope of deployment of computer based services exposed to the cybernetic world has grown (cooperation with third parties, open banking, cloud computer services, use of open code, transition to distance working and more).
With the understanding of the implications of the realization of these threats on the Group's operations, the availability of its services and its reputation, the Bank's Management and Board of Directors allocate abundant resources for the facing of such threats, including their direct involvement. The policy, the methodologies and the tools supporting management of the risk, are being updated and developed on a current basis, while emphasizing the continuous improvement of monitoring and protection tools used against internal and external threats and the preparations made for providing immediate response to events. This, concurrently with a current dialogue with the Regulator and with the Israel National Cyber Directorate.
Macro environment risk. The macro environment continues to be affected by the Corona crisis implications on the domestic and global economies and markets, and the global and domestic uncertainty continues due to the outbreak of new variants. Implications of the crisis mostly affect credit, cyber and models risks. For additional details, see above "The Corona crisis". In addition, structural changes in the employment market and the effects of the Corona crisis on the employment world as well as the advancement of technology all create a significant challenge regarding employee recruitment and preservation aspects, transformation of capabilities and of employment models.
Model risks. The ever-increasing emphasis on digital banking, along with customers' heightened expectations for value maximalization, for insights and for customized, available and immediate products leads to the fact that organizations in general and in the banking system in particular are becoming more and more data-based and model-based, including the assimilation of sophisticated, AI-based models and machine learning. These aspects create developing challenges in the field of model development, as well as in the fields of validation and model risk management. The Group is working in accordance with a multiyear work program, to develop advanced models, as well as to constantly improve the tools and methodologies that support the model risk management.
Along with the aforesaid, the effects of the Corona crisis and the support granted by the government have negatively impacted the forecasting aptitude of the traditional financial models (credit, market, investments) that, in the main, are calibrated for more normal times. With the outbreak of the crisis, the Group analyzed the immediate effects of the crisis on the models and took immediate steps to mitigate the damage, primarily by utilizing tools other than the models, such as increased reliance on manual underwriting, changes in the authorizations' hierarchy and the underwriting thresholds, updating coefficients, etc.
Notwithstanding, the negative impact in the credit field is expected to continue into even the medium-long term and this will also have an effect on future development and validation processes and the Group is intensifying its efforts to analyze the effects of the crisis on the various models, with a risk-based approach and through aligning the work plan to the development and validation of models and adaptation to a policy that supports management of the risk.

Privacy protection. Privacy protection aspects are garnering ever-more attention and importance in Israel and throughout the world, against the background of greater digital and data use. and the issue was identified by the Group as a developing risk. The Group invests considerable efforts in applying regulation and in the integration of privacy protection aspects into processes, systems, models and in the training of the human resource, including formulating a Group policy on this topic. The Group is acting to maintain the proper balance between the use of information for Bank purposes and maintaining the privacy protection aspects of its customers, its employees and suppliers. The privacy protection aspects constitute an important component in examining new products and/or technologies and/or services and/or models, while ensuring proper protection of sensitive information and protection against the potential of information leakage.

Conduct risk. The importance of the values of fairness, decency and transparency vis-à-vis the Bank's customer including the prevention of prohibited discrimination between customers constitutes, itself, a developing risk that is managed as an integral part of the management of compliance risk at the Bank. The Bank is constantly acting to assimilate these values in the spectrum of relevant processes, working to raise employee awareness regarding their importance and acts in improving the supporting work processes at the Bank.

Environment and climate risk. In recent years, the topic of managing environment and climate risks has become a primary focus of regulatory attention due to an understanding that the materialization of environment and climate risks might have an effect on the banking system and in extreme cases might even lead to global and systemic consequences. Accordingly, various regulators throughout the world, including the Banking Supervision Department, are preparing to map the operations relating to the banking system prior to future regulating of this topic. In light of the regulatory letters of expectation recently sent, the Bank is examining accepted practices throughout the world, in order to review its risk management preparations and their integration as part of the risk management processes with the relevant adjustments.

For additional details, see in Chapter "C" of the Board of Directors and Management report – "Risk review".

Weighted risk assets review (OV1)

	Weighted risk assets		Minimum Capital requirements
	31.12.2021	30.09.2021	31.12.2021
	in NIS millions		
Credit risk – standardised approach	185,127	182,643	21,290
Counterparty credit risk (standardised approach)	4,936	3,565	568
Credit valuation adjustment (CVA)	1,656	1,542	190
Securitization exposure (standardised approach)	232	259	27
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	4,249	4,169	489
Total credit risk	196,200	192,178	22,564
Market risk (standardised approach)	3,738	3,759	430
Operational risk	15,383	15,211	1,769
Total	**215,321**	**211,148**	**24,763**

Disclosure regarding the linkage between the balance sheet and the regulatory capital components

For details regarding the required adjustments between the balance sheet in the published financial statements and the regulatory capital components, see Addendum A in this report, below.

Additional information regarding risk exposure and its assessment that is not included in the Third Pillar disclosure requirements

Summary of movement and changes in risk-weighted assets

	2021	2020
	NIS millions	
Balance at the beginning of period	175,080	167,371
Change in exposures		
Realizations (balance-sheet credit)	17,094	6,567
Bonds	150	(224)
Derivatives	(171)	757
Facilities	14,154	3,629
Guarantees	5,039	1,119
Other assets	601	2,532
Total Change in exposures	**36,867**	**14,380**
CCF effect	(12,802)	(4,034)
Change in exposures after CCF effect	24,065	10,346
Changes in risk mitigates	-	
Guarantees (replacement)	4,723	3,668
Financial risk mitigates	1,641	345
Total	**6,364**	**4,013**
CCF effect	(3,526)	(1,102)
Change in risk mitigates after CCF effect	2,838	2,911
Change in CVA	(107)	274
Total Change in credit risk-weighted assets - annual	**21,120**	**7,709**
Balance at period end	196,200	175,080

The linkage between the weighted risk assets and the business transactions and the related risks

The data below reflect the relationship between the risk-weighted assets and the business activities, by the Bank's regulatory operating segments.

	Domestic operations												
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
	in NIS millions												
	For the year ended December 31, 2021												
Average Risk-assets[(1)]	56,272	529	35,643	14,044	51,558	1,078	16,427	175,551	1,642	25,451	2,213	29,306	204,857
Balance of Risk-assets at the period end[(1)]	60,900	569	37,729	14,953	53,314	817	16,400	184,682	1,701	26,744	2,194	30,639	215,321
	For the year ended December 31, 2020												
Average Risk-assets[(1)]	51,918	499	34,880	13,263	45,027	1,338	16,071	162,996	1,754	24,382	2,406	28,542	191,538
Balance of Risk-assets at the period end[(1)]	52,744	519	34,665	12,906	47,854	1,364	15,557	165,609	1,631	23,804	2,188	27,623	193,232

Footnote:

(1) Risk weighted assets – as computed for capital adequacy purposes.

Capital and leverage

Main developments in 2021

The Corona crisis

General. A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means even up to imposing a lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to actual impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households. A significant additional outbreak of morbidity, the third in number, had been noticed in Israel in the months of December 2020 and January 2021. Following this additional outbreak, an additional lockdown was imposed in Israel in the months of January-February 2021, which caused a significant reduction in economic activity and a decline in morbidity. The significant vaccination efforts taken since the beginning of 2021, had led since the month of March 2021, to a decline in the rates of morbidity, allowing a gradual removal of most of the restrictions, and in consequence thereof, recovery in economic activity was noted starting from the second quarter of the year. In the second half of June 2021, the spreading of the "Delta" variant indeed began, however the significant decline in the morbidity situation with the subsiding fourth wave of the Corona pandemic, due to the population being inoculated with the third booster shot with no need for additional lockdowns, brought about a decline in the scope of unemployment and the reduction in Government deficit (see below "Principal economic developments"). An additional considerable outbreak of the pandemic occurred at the beginning of the first quarter of 2022, although the scope of restrictions imposed by the Government on the economic activity in Israel was limited. Following the outbreak of the morbidity, a moderate decline has been noticed in the scope of economic activity in Israel.

Preparations made by the Bank. With the beginning of the crisis, the Bank's Management directed its full administrative attention to the crisis and its implications. Cross-organization work teams, headed by the Bank's President & CEO, managed the different layers of the Bank's operations under the crisis, while closely following developments and adopting measures for the reduction of the different risks and the maintenance of business continuity with the utmost sensitivity to Bank customers. The business divisions increased monitoring and control operations over the condition of the credit portfolio and of the financial assets portfolio of the Bank. Concurrently with the management of the crisis, the management engaged in planning the Bank's preparations for exiting the Corona crisis and the initiation of actions in this field.

Customer support. Since the beginning of the Corona crisis and the restrictions imposed on economic activity, the Bank has prepared to support its customers in confronting the economic uncertainty and traversing the crisis. For additional details see below "Activity of the Group according to Principal Segments of Operation - Principal Quantitative Data and Main Developments".

Operation and business continuity. The branch layout and the supporting units of the Bank and of MDB operated in full capacity in 2021

Capital requirements and dividend distribution. On the background of the spreading of the Corona virus and with the aim of supporting the credit requirements of the customers during this period, the Bank's Board of Directors has decided to modify the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted by the provisional Directive issued by the Supervisor of Banks. At the same time, the Bank's Board of Directors decided that the distribution of dividends by the Bank shall be temporarily discontinued. On November 22, 2021, the Bank's Board of Directors decided to reestablish the goal of the Tier I capital ratio at the targeted range that had been in effect prior to the entry into effect of the Provisional Instruction. On the basis of the ICAAP and the SREP procedures, the Board decided to reduce the said goal by 0.15%, fixing it at the rate of 9.75% (for additional details, see "Capital and capital adequacy" in the 2021 Annual Report). The Bank has resumed the distribution of dividends, starting with the profits of the third quarter of 2021, at the rate of 20% (for additional details, see in the 2021 Annual Report "Dividend distribution" and Note 24 to the financial statements as of December 31, 2021).

Changes in the level of risk. The Corona crisis and its domestic and global implications, have led to an increase in risk in most of the managed risk areas in 2020. Following the decline in the inherent risk as a result of the return to work at the Bank offices, the strengthening of business continuity and the stabilization of the changes that had followed the retirement process, the evaluation of the effect of the operational risk has been lowered in the second quarter of 2021 from High to Medium-high, the rating in effect prior to the outbreak of the Corona crisis.

Expenses for credit losses. In 2021 credit loss expenses release in the amount of 693 million were recorded, compared with expenses of NIS 1,718 million in the corresponding period last year, a decrease of 140.3%. The significant decrease in morbidity and the lifting of the third lockdown led to the reopening of the trade and the economy as a whole, with greater economic activity being evident beginning toward the end of the first quarter. During the year, the subsiding fourth wave of the Corona pandemic, due to the population being inoculated with the third booster shot with no need for additional lockdowns, brought about a decline in the scope of unemployment and the reduction in Government deficit. These factors have had a positive impact on the position of businesses and borrowers, as well as on macroeconomic parameters.

(See in the 2021 Annual Report: "Credit loss expenses" in the section "Developments in income and expenses"; "Credit risk"; and "Allowance for credit losses – allowances on a group basis" in the section "Critical accounting policies and critical accounting estimates").

Continuing uncertainty conditions. The level of uncertainty declined during 2021, in view of the wide scope vaccination of the population in Israel, the decline in the rates of morbidity and the lifting most of the restrictions that had been imposed on economic activity. However, the overall economic ramifications of the Corona crisis are still not fully clear and depend on the rate of economic recovery and the return of the various economic sectors to full activity. The uncertainty is also effected by concerns regarding additional waves of the pandemic outbreak and the implications of such additional waves. In addition, at this stage, significant uncertainty still exists with respect to the length of time in which the Corona epidemic may continue its significant presence in the world. The Bank and its principal subsidiaries continue to follow developments in this respect and are studying the possible implications on sectors and customers, which might be affected by this situation. The Bank estimates that the Corona crisis may continue and impact the condition of borrowers and their loan repayment ability, even though, at this stage, as stated, uncertainty exists with respect to the rate of recovery from the crisis and the length of time in which it is expected to have an effect.

Forward looking information. The Bank estimates regarding the possible implications of the crisis, comprise forward looking information, based upon the information existing in the hands of the Bank at date of preparation of this report. Such estimates may not materialize or may materialize in a different manner than that estimated by the Bank.

Issuances

Issuance of deferred debt notes – expansion of Series G. On April 22, 2021, the Bank, through its subsidiary Discount Manpikim Ltd. ("Manpikim"), completed the process of issuing deferred debt notes (expansion of Series G), which include a capital loss absorption mechanism, which are capital instruments classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, in a total amount of approx. NIS 932 million. The effective interest rate at issue date was 1.07%.

On June 28, 2021, the Bank, through Manpikim, completed the process of issuing a private placement of the said deferred debt notes (expansion of Series G), in a total amount of approx. NIS 250 million. The effective interest rate at issue date was 0.76%.

Issuance of deferred debt notes – Series H. On November 29, 2021, the Bank, through Manpikim, completed the process of issuing deferred debt notes (Series H), which include a capital loss absorption mechanism, which are capital instruments classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, in a total amount of approx. NIS 580 million. The effective interest rate at issue date was 1.86%.

Additional Issuances. On November 29, 2021, the Bank, by means of Manpikim, completed the issue of financial instruments intended to respond to the liquidity requirements and strengthen the infrastructure for the accelerated growth strategy for the credit portfolio of the Bank. In this framework, bonds (Series "O") were issued in a total amount of approx. NIS 3.1 billion, and at an effective margin of 0.8% and commercial securities (Series 1) in a total amount of approx. NIS 907 million and at a margin of 0.23% over the Bank of Israel interest rate.

Basel and the regulatory capital requirements

General

The Basel Committee is an international body established in 1974 by the central banks of various countries. The decisions and recommendations of the Committee, though not legally binding, determine the supervisory principles according to which the authorities that supervise the banking systems in a significant number of countries around the world operate. In June 2004, the Basel Committee published recommendations intended to ensure proper regulation with respect to capital adequacy of banks in the various countries (hereinafter: "Basel II"). The Basel II guidelines have been regularized in Israel within the framework of Proper Conduct of Banking Business Directives Nos. 201-211. Most of these instructions have been amended in the course of 2013, and adjusted to the instructions of Basel III. For additional details, see below.

The Basel instructions are comprised of three pillars:

- **First pillar – Minimum capital requirements.** Defines the manner of computing the capital to risk components ratio. For additional details, see hereunder.
- **Second pillar – supervision and control process over capital adequacy.** Within the framework of the second pillar banking corporations are required to conduct an internal process designed to evaluate the appropriateness of capital adequacy and to adopt a strategy intended to ensure capital adequacy – Internal Capital Adequacy Assessment Process ("ICAAP"). For additional details, see hereunder.
- **Third Pillar – "Market discipline".** The banking corporations are required to present proper disclosure and expand the reporting to the public regarding the risks involved in their operations, in a manner that would enable the public to better understand the overall risks to which they are exposed, the way in which such risks are being managed and the amount of capital allocated in their respect.

Composition of the capital

Capital components for calculating ratio of capital

	December 31,	
	2021	2020
	in NIS millions	
A. Common Equity Tier 1		
Common equity	22,148	19,727
Difference between common equity and common equity tier 1	(395)	(246)
Total common equity tier 1 before supervisory adjustments and deductions	21,753	19,481
Supervisory adjustments and deductions		
Goodwill and other intangible assets	195	207
Supervisory adjustments and other deductions	8	(16)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	203	191
Total adjustments in respect to the efficiency plan	289	417
Total common equity tier 1 after supervisory adjustments and deductions	**21,839**	**19,707**
B. Additional tier 1 capital		
Additional tier 1 capital before deductions	178	356
Total additional tier 1 capital after deductions	**178**	**356**
C. Tier 2 capital		
Instruments before deductions	4,431	2,896
Allowance for credit losses before deductions	2,452	2,188
Minority interests in a subsidiary	88	86
Total tier 2 capital before deductions	6,971	5,170
Deductions	-	-
Total tier 2 capital	**6,971**	**5,170**

For details regarding the connection between the balance sheet and the components of the regulatory capital, see below Appendix "A" to this report.

Statement of flows of the regulatory capital

Summary of movements and changes in the regulatory capital

	2021	2020
	in NIS millions	
Balance at the beginning of period	25,233	25,564
Common Equity Tier 1 before deductions		
Paid up share capital	-	-
Share premium	-	-
Retained earnings, including dividends proposed or declared after the balance sheet date	2,594	1,040
Unrealized profit (loss) from adjustments of available-for-sale securities to fair value	(243)	112
Unrealized profit (loss) in respect of cash flow hedging	(2)	(1)
Translation adjustments of autonomous units held abroad	(113)	(254)
Other reserves which received the Supervisor's approval	(112)	(128)
Minority interests in the equity of consolidated subsidiaries	20	(38)
Total Common Equity Tier 1 before deductions	**2,144**	**731**
Goodwill and Intangible assets	(12)	43
Deferred taxes the realization of which is based on future profitability of a banking corporation	-	-
Deferred taxes attributable to timing differences (over 10% of Common Equity Tier 1)	-	-
Unrealized profit (loss) as a result of changes in fair value of liabilities resulting from changes in the Bank's self credit risk	24	(10)
Threshold deductions - the amount exceeding 15% (in accordance with Section 13 of Directive No. 202)	-	-
Others	-	-
Total deductions from Common Equity Tier 1	**12**	**33**
Total Common Equity Tier 1 after deductions	**2,132**	**698**
Instruments issued by the banking corporation qualified for inclusion in regulatory capital in accordance with transitional instructions in Directive No. 299	(178)	(178)
Total Additional Tier 1 Capital after deductions	**(178)**	**(178)**
Instruments issued by the banking corporation and premium on these instruments (in accordance with Section 10A and 10B of Directive No. 202)	1,723	540
Instruments issued by the banking corporation qualified for inclusion in regulatory capital in accordance with transitional instructions in Directive No. 299	(188)	(1,488)
Minority interests in consolidated subsidiaries	2	1
Group allowances for credit losses before related tax effect	264	96
Total Common Equity Tier 2 before deductions	**1,801**	**(851)**
Deduction in respect of investment in financial corporations mainly in respect of FIBI	-	-
Total deductions from Tier 2 Capital	**-**	**-**
Total Tier 2 Capital after deductions	**1,801**	**(851)**
Balance at period end	**28,988**	**25,233**

Capital adequacy

Evaluation of capital adequacy

The ICAAP process - Capital requirements according to the second Pillar of Basel

The internal capital adequacy assessment process (hereinafter: "ICAAP") is a Group self-evaluation process performed within the framework of the second Pillar of Basel II, which is intended to ensure a continuous capital adequacy of the Group in relation to its risk profile.

An annual report to the Supervisor of Banks in Israel is submitted in respect of this process, which is being reviewed by the Supervisor within the framework of the Supervisory Review Evaluation Process (hereinafter: "the SREP").

Furthermore, current monitoring and supervisory processes are being conducted with respect to changes in the risk profile, while monitoring and examining developments in the risk assets and in the capital and submitting a quarterly report, "the risk document", which also includes an evaluation of the Group's capital adequacy.

From the viewpoint of the Basel framework, the processes for capital adequacy assessment are complementary processes to the provisions of the first pillar, providing a binding framework for the allotment of capital.

In this process, the banking group is required to evaluate, by itself the adequate volume of capital requirements in relation to the risks to which it is exposed and to the quality of its risk management, in order to ensure its long-term financial stability. Accordingly, the ICAAP includes an examination of all risk management processes in the Bank Group, including corporate governance and a group management of risk management, identification of material risks to which the Group is exposed, quantification of the overall exposure to risk in terms of capital and performing a comparison between the volume of exposure and the Bank's capital resources at the present time and from a forward looking standpoint, while providing a solution for the market cycle, for periods of stress and for various scenarios, including stress tests.

As part of the ICAAP, banking corporations are required to reassess their capital requirements, both in respect of risks that were addressed by the first Pillar and material risks not addressed by it, and determine, subjectively, what is the adequate level of capital required in respect of such risks (capital adequacy assessment).

The additional risks included in the second Pillar are composed of risks not addressed by the first Pillar, where it is possible to compute the extent of related exposure and the capital allocation required in their respect on a quantitative basis (such as: concentration risk, interest risk in the banking book, etc.) and from qualitative risks, which are examined within the framework of the comprehensive examination of the capital adequacy (such as: reputation risk, compliance risk, strategic risk, legal risk, etc.). Furthermore, within the framework of the second Pillar, banking corporations are required to perform stress tests in order to examine their capital adequacy.

Stress tests

The Bank uses forward looking stress tests as a complementary tool for the risk management processes, the aim of which is to alert Management of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. The holistic stress tests are being used for the examination of the Group's capital adequacy in such cases, and for the determination of the minimum capital adequacy targets also from a forward looking viewpoint. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.

The Group has a policy for the management of stress tests, which defines the principals for the proper management of the scenarios and the duties of the Board of Directors and Management in the review and identification of possible stress tests, examination of the methodologies and models for assessing the effect of stress tests, and for reviewing the reasonableness of the results.

A uniform methodological framework was defined to establish an orderly work procedure for the implementation of stress tests at the Bank and at the subsidiary companies, which details the methodology and the models used by the Group to evaluate the effect of stress tests on credit risks, market risks and on certain components of the profit and loss.

This methodology combines the examination of the effects of stress tests examining the effects of changes in macro-economic parameters on the profit and loss items and on the capital, using internal models developed by the Bank, and the examination of the effects of stress tests on identified vulnerability areas/specific risk centers, while challenging the assessment results by the business functions. The said combination provides the Bank flexibility and relative speed in running a variety of scenarios with different sensitivity analyses on the one hand, and specific examination of the exposures on the other hand, while addressing the Group's unique risk characteristics and increasing the usefulness of the tool in the hands of the business factors and the risk management division, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.

A uniform macro-economic stress test. Starting with the year 2014, the Bank performs an annual examination of the effects of a uniform macro-economic stress test, the scenarios thereof are published by the Supervisor of Banks and belong jointly to the banking industry in general.

The uniform stress test is integrated into the processes for the evaluation of capital adequacy.

Capital planning process

The process of planning and managing the capital is a group process conducted on an ongoing basis, the aim of which is to ensure the management of the capital ratios of the Group from a long-term viewpoint, with an optimal allocation of the Group's assets from a risk based viewpoint and in line with the strategic plan and the Group's risk appetite. Following are the main objects of the capital planning:

Determination of the minimal capital ratios

The capital ratios in the Group are determined by the Board of Directors, so that they would be equal to or higher than the regulatory minimal capital ratios (in accordance with Proper Conduct of Banking Business Directive No. 201). The capital ratios are determined on the basis of the results of the capital adequacy assessment process (ICAAP), and reflect the risk appetite of the Group.
The regulatory minimal capital ratio, as defined by the Supervisor of Banks – in accordance with Proper Conduct of Banking Business Directive No. 201, a banking corporation has to maintain a minimal Common Equity Tier 1 ratio of 9% and an overall capital ratio of 12.5%. In September 2014, the Supervisor of Banks issued a circular relating to "restrictions on the granting of housing loans". According to the instruction, a banking corporation is required to raise the ratio for the Common Equity Tier 1 and the overall capital by a rate of 1% of the outstanding balance of housing loans. The said requirement increased the total minimum equity capital requirement and the total capital by approx. 0.20% (9.20% and 12.70%, respectively).

Capital goals for the capital planning horizon

Provisional Instruction mitigating the capital requirements in order to face the Corona crisis. The Supervisor of Banks published on March 31, 2020 a Provisional Instruction, according to which, on the background of the spreading of the Corona virus and in order to secure the ability of banks to continue the granting of credit, the regulatory capital requirements applying to banks, have been reduced so that the minimum Common Equity Tier 1 ratio (excluding the additional capital buffer in respect of residential credit) would be 8% (compared to 9% prior to the change), and the minimum total capital ratio would be 11.5% (compared to 12.5% prior to the change). The Provisional Instruction has been extended from time to time, and recently until December 31, 2021. The mitigated capital requirements will apply for a period of twenty-four months following the end of the temporary directive period (namely, until December 31, 2023), on condition that the Bank's capital ratios shall not be lower than the capital ratios existing at the end of the temporary directive period, or the capital ratios applying to the Bank prior to the temporary directive, whichever is lower. Within the framework of the circular dated March 22, 2021, it was prescribed that a reduction in the capital ratios of up to 0.3 percentage points in the six-month period from the end of the temporary directive's validity (namely, until June 30, 2022) would not be considered a deviation from the regulatory capital requirements.
Capital goals. At least once a year, the Board of Directors approves the Bank's capital goals, which comprise a Common Equity Tier 1 goal and a total capital goal. These goals are based on the policy that has been approved by the Board of Directors, which expresses the Bank's appetite for risk, pursuant to which the Bank is required to maintain a higher capital adequacy level than the rate required by the ICAAP result and according to a system stress test. It should be noted that these goals consider, inter alia, the results from the Bank's internal processes for determining the capital goals (the ICAAP results) and the results of the last SREP that was carried out, which includes a dialogue between the Bank and the Banking Supervision Department in relation to the specific risks of the Bank at the time when this process was carried out and the uniform stress tests were conducted[1].

1 For the meaning of the term "uniform stress testing" and for further details, see "Stress testing" in Chapter C in the 2021 Annual Report, as well as "Assessing the capital adequacy" above.

On the background of the spreading of the Corona virus and with the aim of supporting the credit needs of customers during this period, the Bank's Board of Directors decided on April 7, 2020, to adjust the goal of the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted under the Provisional Instruction published by the Supervisor of Banks (see above). The total capital goal was adjusted accordingly.
On November 22, 2021, the Bank's Board of Directors decided to reestablish the goal of the Tier I capital ratio at the targeted range that had been in effect prior to the entry into effect of the Provisional Instruction. On the basis of the ICAAP and the SREP procedures as stated, including the latest uniform stress tests performed, the Board decided to reduce the said goal by 0.15%, fixing it at the rate of 9.75%.

Capital planning

As part of the capital planning process, the capital targets of the work plan, while maintaining a capital buffer in the event of unexpected fluctuations affecting the capital ratio, and from these the risk assets budget is derived.
The capital outline takes into consideration various parameters that have an effect on the capital ratios, such as: assumption of profitability consistent with the risk assets budget, dividend distribution, changes in the various capital reserves, regulatory adjustments and amortizations in accordance with transitional instructions. The Bank examines a number of scenarios for achieving the prescribed capital ratios.

Sensitivity of the capital adequacy ratio to changes in common equity tier 1 and risk assets

	Change in common equity tier 1 ratio	Change in total capital ratio
	December 31, 2021	
Reduction of NIS 100 million in equity	(0.05%)	(0.03%)
Increase of NIS 1 billion in risk assets	(0.05%)	(0.05%)

Note:
The effect is computed as the post-change ratio divided by the pre-change ratio.

Determination of a capital buffer

The amount of the "capital buffer" maintained by the Bank, in excess of the minimal capital ratios determined by the Board of Directors, in intended to ensure compliance with the capital targets during changing market and profitability conditions. The capital buffer has been determined by the Bank on the basis of a varied analysis of profitability scenarios, fluctuations in the capital fund, fluctuations in the impact of the revaluation of employee rights upon the capital and a scenario in which Israel's credit rating is downgraded. Improvement in the capital management and monitoring capabilities, and the reduction in the Group's market risks (following the elimination of interest risk relating to the liabilities to employees, which are revalued according to the return on linked government bonds with the addition of a credit spread of U.S. corporations having an AA rating) allow the Bank to hold a lower capital buffer than that held in the past.
A contingency plan for short-term capital adequacy improvement, which is based on a reduction of risk assets, has been drawn up in order to cope with situations of capital buffer erosion.
As part of current management, the Bank monitors the sensitivity of the capital ratios to market risks, including risks regarding interest, shares and the increase in spreads.

Risk assets budget

Following the determination of the capital targets and the required amount for the capital buffer, the limitation on the overall increase in risk weighed assets was computed with a five-year viewpoint. The risk assets budget determined for 2021 ensures the Bank's Group attainment of the determined capital targets. The allocation of risk assets among the business units and the subsidiary companies is the outcome of the strategic planning while optimizing the return on the Group's capital. As part of this process, a capital requirement mapping had been performed in each company in the Group and decisions have been made regarding the allocation of facilities of risk assets on the basis of business considerations for maximizing profits as well as additional strategic considerations.

Monitoring the capital ratios

Within the framework of the capital management, the Bank examines on a current basis its ability to comply with the internal capital goals, as determined by the Board of Directors in the work plan, while monitoring developments in the use of risk assets by the Bank and by the Group companies, and the assessment of compliance with the capital targets determined for the Bank and for each company in the Bank Group. The monitoring of capital, including the forecasting of capital ratios for a year in advance, is being presented to the Management on a current basis.
Should the forecasted capital ratio be considerably lower from that planned (by a predetermined rate), a Management discussion takes place to consider the measures that need to be taken in order to attain the prescribed outline – measures such as reducing risk assets, utilizing the capital buffer, and so forth.

Capital management at the subsidiary companies

The capital targets determined by the group capital management process are used as leading principals for the subsidiary companies. These targets serve as a basis for the individual capital planning of each subsidiary, with required adjustments. Moreover, leading principles have been determined for the distribution of dividends by the subsidiaries to the parent company, with a view of improving the capital efficiency of the subsidiaries while maintaining a capital level in each of them commensurate with the overall risk level which it manages.

A financial plan for strengthening capital adequacy in times of crisis

Within the framework of capital planning approved by the Board of Directors, there exists a financial plan for strengthening capital adequacy. The plan presents the principles and tools at the disposal of the Group in order to face situations of serious harm caused to the capital ratios due to a financial crisis. Moreover, the functions responsible for the management of the tools operate to face crisis situations, each within his area of responsibility in the ordinary course of business. In line with this plan, the business functions form plans providing specific response designed to face the financial crisis, within the framework of which the tools for action in case of a crisis are described, as well as additional actions to be adopted, the timing thereof and the level of authority that has to approve them.

Leverage ratio

General. The leverage ratio is defined as the capital measurement divided by the exposure measurement. The capital for the purpose of this measurement is the common equity tier 1. The exposure measurement is the sum of the balance-sheet exposures, the exposures to derivatives, the exposures to securities funding transactions and off-balance-sheet items (for details regarding the factors which may affect the leverage ratio, see Note 25 item 2 to the financial statements as of December 31, 2020).

Comparison between Balance sheet assets and the measurement of exposure for the purpose of the leverage ratio (LR1)

	December 31, 2021	December 31, 2020
	NIS millions	
Total assets according to the consolidated financial statements	335,088	293,969
Adjustment in respect of investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes	-	-
Adjustments in respect of trusteeship assets recognized in the balance sheet according to the Reporting to the Public Directives, but not included in the measurement of exposure of the leverage ratio	-	-
Adjustments in respect of derivative financial instruments	(190)	(2,060)
Adjustments in respect of SFTs	-	-
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	31,110	25,340
Other adjustments	2,112	1,973
Exposure for the purpose of the leverage ratio	**368,120**	**319,222**

Disclosure of the leverage ratio (LR2)

	December 31, 2021	December 31, 2020
	NIS millions	
Balance sheet exposures		
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	326,583	286,277
Asset amounts deducted in determining Tier 1 capital	(195)	(207)
Total balance sheet exposures (excluding derivatives and SFTs)	**326,388**	**286,070**
Derivative exposures		
Replacement cost associated with all derivatives transactions	2,836	2,407
Add-on amounts for PFE associated with all derivatives transactions	2,507	1,943
Gross-up for derivatives collateral provided which were deducted from the balance sheet assets pursuant to the Reporting to the Public Directives	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	-	-
Exempted CCP leg of client-cleared trade exposures	-	-
Adjusted effective notional amount of written credit derivatives	-	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-
Total derivative exposures	**5,343**	**4,350**
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	5,280	3,462
Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
Credit risk exposure of a counterparty for SFT assets	-	-
Agent transaction exposures	-	-
Total securities financing transaction exposures	**5,280**	**3,462**
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	125,560	101,476
Adjustments for conversion to credit equivalent amounts	(94,450)	(76,136)
Total off-balance sheet items	**31,110**	**25,340**
Capital and total exposures		
Tier 1 capital	(1)22,017	(1)20,063
Total exposures	368,120	319,222
Leverage ratio		
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.0	6.3

Footnote:

(1) The Tier I capital and the total exposure are presented after the relief granted by the Supervisor of Banks in respect of the efficiency plans.

Credit Risk

Credit risk is the risk of material impairment to the value of the Group and its ability to attain its goals as a result of deterioration in the ability of a borrower or counterparty to honor their obligations towards the Bank, in whole or in part.
The credit risk management concept at the Bank and at the Group is designed to secure a proper balance between the business factors that directly create and manage exposure to credit risk, and the factors engaged in supervision, independent risk control and evaluation, and the factors engaged in the audit.
Hereunder is included reference, as the case may be, to the principal subsidiaries - IDB Bank and Israel Credit Cards ("ICC"). In view of the fact that MDB is similar to the Bank in its general characteristics, from the general lines of operation and related regulatory aspects, no separate reference is generally included with respect to this bank.

The Corona crisis

After two years since the outbreak of the pandemic, the Israeli economy as and economies around the world have learnt to live alongside the pandemic. The year 2021 ended with the beginning of the fifth wave of the pandemic identified as the Omicron variant, which has a higher contamination propensity than its predecessors, but which causes a lighter illness. The Israeli economy remained open though with widespread disruptions in the education system and with no immediate compensation for businesses the volume of operations of which had been adversely affected by this wave. The high volume of unemployment measured at the beginning of the crisis, continued to decline during 2021, and so did the ratio of the Government deficit to the GDP, which declined during the year at a faster rate than that forecasted earlier. On the background of the said improvement in economic indices, the Bank reduced in 2021 a part of the group allowances created in 2020.

New directives

Update of Proper Conduct of Banking Business Directive No. 313 – limitation on indebtedness of a borrower and of a group of borrowers. An update of the Directive was published on December 26, 2021, according to which the definition of "control" had been updated for the purpose of determining a group of borrowers, so that the definition of the term "control" shall not apply where the holding by an institutional investor of the means of control of a corporation does not exceed a rate of 20%.
Updates of guidelines of the Supervisor of Banks in the matter of housing loans. The Supervisor of Banks published on August 9, 2021, three updates: the first, regarding the Q&A file in the matter of limitations on housing loans, according to which, it is clarified that a bank may not extend an additional loan to be used as "equity capital" for the purchase of a residential unit, with the exception of cases detailed in the body of the instruction. The two additional updates comprise a decision regarding the non-extension of the effective period of reliefs in the matter of housing loans granted within the framework of the Provisional Instruction, which expires on September 30, 2021: the provisional Instruction permits the increase of the financing ratio up to a rate of 70% of a loan granted for any purpose, instead of a rate of 50%; The Provisional Instruction states also that banks would not be required to increase the Common Equity Tier 1 target by 1% in respect of housing loans granted during the period of the Provisional Instruction.
Draft update to Proper Conduct of Banking Business Directive No. 451 – procedures for the granting of housing loans. A draft update of the Directive was published on January 5, 2022, within the framework of which it is proposed to determine that banks shall be required to: (1) provide to the public an online calculator enabling simulations of different mixes of the loan for different time periods, in order to obtain an estimate regarding the effect of changes in the mix on the monthly repayment amount and on the total amount to be paid until the end of the loan period; (2) a banking corporation shall provide to the customer an approval in principle of the loan within five

business days from date of the application for the loan, as stated. In exceptional cases involving loans the characteristics thereof would be defined in advance in the credit policy of the banking corporation, the approval in principle should be provided within seven business days, and notice would be given to the customer regarding the deviation in the time period required to process his application and the reasons there for. It is further proposed by the draft to determine the contents of the information, which the banking corporation has to present in the Internet Application offered to its customers. It is also proposed to determine that where, at the request of the customer, the bank delivers to him information in writing not more than twice in each calendar year, then no commission would be charged for this service. Likewise, it is proposed to define the rule for computing the "overall anticipated interest". In this respect, formulas for the calculations had been determined as well as a table showing the relation of the different types of loans to the appropriate estimates. The draft proposes that the updates would take effect on August 31, 2022.

Update to Proper Conduct of Banking Business Directive No. 451 - procedures for the granting of housing loans. Addendum No. 6 to the Directive published on January 24, 2022, details the data which a bank has to present in the document of approval in principle, in which three uniform baskets are presented with the addition of a proposed basket track. It is also required to present details of the estimated overall interest and of the highest amount of monthly repayments anticipated in accordance with the forecast.

Strengthening the control and monitoring processes with respect to credit for the construction and real estate sector. For details regarding the Banking Supervision Department's letters dated August 19, 2021, and December 30, 2021, see "Credit risk in relation to the Construction and Real Estate Sector" in Chapter "C" in the 2021 Annual Report.

Proper Conduct of Banking Business Directive No. 250A – Transition from Libor Interest. For details regarding the Directive, which was issued on September 30, 2021, see "Replacement of foreign interest benchmarks (base rates) and its repercussions" in Chapter "C" in the 2021 Annual Report.

The management of debt arrangements and collection processes of material debts in difficulties. On September 30, 2021, Proper Conduct of Banking Business Directive No. 314A was issued, in furtherance of the updating of Proper Conduct of Banking Business Directive No. 450, which describes the way that large debts need to be handled. The Directive expands and details the regulatory guidelines for managing material debts in difficulties and all the relevant aspects at the various life-stages thereof: guidelines at the underwriting stage such as to assist in properly dealing with credit defaults, guidelines pertaining to the early identification of a worsening of the debt even prior to it becoming problematic, and guidelines for the way in which debt arrangements and collection processes are to be handled. The Directive emphasizes the importance of passing the debt, at early stages, while there is still cooperation on the part of the debtor, to be handled by the Special Credit Unit. In addition, it is stated that the Risk Officer will participate in the forum whose role it is to discuss and take decisions about passing a debt to be handled by the designated function and to give an independent written opinion, both in preparation for the discussion on passing a debt to be handled by the designated function and also when the debt arrangement includes the waiver of the debt or part thereof in a material amount or when additional credit is needed for a borrower in difficulties.

General information regarding credit risk quality (CRA)

The Bank's Strategy and policy with respect to credit risk management

Credit risk appetite principles

- The credit risk appetite shall be consistent with the business strategy, liquidity planning and the financial resources and capital planning of the banking corporation. Accordingly, when determining the risk appetite, taken into consideration are capital constraints and financial resources, the banking corporation's commitments, as well as the impact of potential stress events;
- The credit risk appetite will constitute the basis for determining the credit policy of the Bank and the subsidiaries, through the establishment of reciprocal relations/a dialog between the strategy units, the capital planning unit, the business functions and the risk management units at the Bank and the Group. The risk appetite also constitutes the basis for setting specific limits for the taking of credit risks;
- The Group shall determine restrictions on exposure to all activities involving credit risk, which would help in diversifying in a proper manner the credit granting operations. The rules and restrictions reflect the risk level at which the Group seeks to operate;
- The Group will focus on activities in respect of which the required professional skills exist, on operations contributing to the utilization in full of synergies existing between companies in the Group, and on operations contributing to increased profitability and the optimal allocation of risk assets;
- The Group will recognize and manage the credit risks in all its products and operations.

Credit risk management policy

The credit risk management policy is aimed at establishing an infrastructure for credit risk management at the Bank and at the Group, in a manner that would contribute to attaining an adequate return for the risk taken (in risk adjusted terms), in accordance with the determined risk appetite, while understanding the credit risk profile of the Bank and the Group and details of their areas of responsibility, of the functionaries at the Bank involved in the identification, measurement, monitoring and control processes regarding the credit risk that the Bank accepts. The risk management policy document is discussed and approved in each year by the Bank's Management and Board of Directors.

The criteria of the implementation format of the credit risk management policy, include, inter alia:

- **Identification, measurement and assessment** – identification of the credit risk factors relates to the whole array of operations, the purpose of which is to ensure that all the risk factors and their characteristics are fully identified in relation to every credit product and activity of the Bank. The risk factors that impact the level of credit risk stem, inter alia, from sectorial and geographic characteristics, product features, the borrower and the transaction, and the credit concentration.
- **Monitoring the credit risk exposure** – monitoring the exposure is an active process that is performed on an ongoing basis, and its essence is the tracking of the credit quality of specific exposures on the one hand and on the other hand, aggregative exposures at different levels, up to the level of the credit portfolio as a whole.
- **Information infrastructure and systems** – the information systems assist in identifying, monitoring, tracking and reporting the risks, and enable the gathering of the exposures and the risks indices in order to create the overall risk profile.
- **Assessment of the overall risk level** – the outcomes of the identification, measurement and monitoring processes serve as a basis to create a picture of the overall Group's risks, in which are set forth all the risk factors identified within the framework of the various processes, and the degree of each risk factor's sensitivity, both in a normal business situation and under stress tests.

- **Assessment of the effectiveness of credit risk management processes** – the Board of Directors and the Management ascertain the establishment of periodic processes for assessing the quality and effectiveness of the credit risk management processes, which relate to the whole array of assessment elements, in such a way as to enable tracking the development in the credit risk management processes over time and making comparisons between business lines.
- **Strength and crisis management** – Discount Group ensures its strength and financial stability even in various crisis situations, including business continuity situations, by instituting work routines and procedures designed to set out the responsibilities and authorities of office holders, the processes and the supporting infrastructure.

Core documents in the credit field

Core documents in the credit field include the credit risk appetite document and the Discount Group credit policy which includes the Group principles that determine the framework for the granting of credit, with the aim of creating a uniform credit risk concept in the Group, the Bank's standalone credit policy, the credit risk management policy document, as well as the procedures and methodology with respect to credit, comprising an integral part of the credit management framework at the Bank.

The credit policy of the Bank and of its subsidiaries is, among other things, intended to improve the quality of the credit portfolio, to diversify the portfolio, to limit its concentration and to spread out the risks inherent therein. The policy documents are discussed and approved by the Management and by the Board of Directors on an annual basis of each subsidiary company.

The Bank's credit policy addresses different areas and activities, including economic sectors, borrower groups and large borrowers, and particular attention is directed to areas in which unique credit exposure exists, such as: holding companies and capital transactions, leverage financing, the diamond sector, real estate sector, housing loans, acquisition groups and capital market players. In addition, the credit policy determines criteria and guidelines for the granting of credit in the different lines of operation, such as policies regarding complex foreign trade transactions, syndication and the sale of credit, for financial institutions, for activity with custodians, for banks and borrowers in less developed countries (LDC) and exposures to counterparties.

The credit policy includes internal limitations in addition to regulatory limitations imposed on banking corporations within the framework of directives of the Supervisor of Banks regarding, among other things, sectorial concentration, single borrower and borrower groups that are monitored on an ongoing basis.

The credit policy documents and the procedures and methodologies in the credit field include detailed instructions and rules regarding collateral, regarding the obtaining of collateral, treatment of the different collateral types and the rate of reliance thereon. As a general rule, the Bank grants credit to customers against collateral of different types, including liquid assets, fixed assets, different pledges and guarantees. To the extent possible, the collateral matches the credit it secures, as regards the period of the credit, currency of the loan, revolving credit. Assessment of the value of the collateral is performed periodically.

The credit policy of IDB Bank. The credit policy of the subsidiary, establishes rules for the granting of credit according to the following categories of concentration: type of industry, geographical distribution, exposure to large borrower groups, risk rating and the real estate portfolio, with the aim of distributing the risks inherent in the credit portfolio. In addition, the policy document determines limitations and/or targets within the framework of such concentration risks. Credit exposure and compliance with limitations are reported to the Board of Directors on a quarterly basis. The credit policy also determines the credit authorization hierarchy, and the duties of the business units and the control units relating to assessment, monitoring, measurement and management of the credit risk.

The credit policy of ICC determines the credit risk appetite, the risk management policy and the rules and limitations applying to the different activities of the company.

The organizational structure and formation of the credit risk management functions and the control functions

The organizational structure by means of which the credit risk is managed correlates with the risk management model that has been adopted by the Bank Group within the framework of the Base Document for Risk Management and includes the definition of authority and responsibility of the functions involved in the management of risk at the Bank – the Board of Directors, Management and three separate lines of defense.

First line of defense

- **Business units.** Various processes for the reduction of credit risk are performed within the framework of the business units through the economic and business analysis of applications for credit in order to evaluate the credit risk involved in the operations of the borrower, credit rating and the ongoing monitoring and control over the credit granted as well as the quality of the borrower. These are being conducted by the business managers and are controlled by the control units comprising a part of the first line of defense. Within the framework of such processes, the collateral provided is being assessed and revalued in accordance with collateral procedures. The current survey of credit files includes a review of implementation of decisions taken by the credit committees, including documents related to credit transactions (loan agreements, pledge documents, compliance with terms and conditions, availability of current reporting by the customer, etc.).
  The control procedures are performed using irregularity reports and outstanding debt reports at various profiles. The aim of the control is to identify as early as possible defaults in customer accounts and to draw the attention of the business factors to the urgent need to correct any irregularities in their indebtedness.
- **Credit committees.** The Bank has determined a scale of credit authority for managers and the various credit committees, reaching up to the Board of Directors.
  Presented below is a list of the Bank's credit committees, as determined by the Board of Directors:
  - The credit committee of the Board;
  - The central credit committee headed by the Bank's President & CEO;
  - Division level credit committees (corporate and Banking Divisions);
  - Local credit committees (in accordance with the business unit to which the customer belongs).

  The credit committees discuss and make decisions in matters of credit, both as regards to applications for new credit and as regards to existing indebtedness. Committee discussions include a review of the debtors, including their compliance with credit terms, changes in the profitability of credit, developments in their financial condition, evaluation of the level of exposure to changes in exchange rates, the debtor's credit rating, risk adjusted return etc.
  The hierarchy regarding the authority to grant credit is in accordance with Proper Conduct of Banking Business Directive No. 301, so that the authority of the Board of Directors for approval of credit shall focus on the approval of transactions which are exceptional in relation to the determined policy.
  Control units exist at the various divisions, which include the following areas: control, collection, prohibition of money laundering compliance and the drawing of conclusions.
  Presented below are the control units in the various divisions:
  - **Retail Credit Subdivision and Head Office Administration Subdivision** at the Banking Division are responsible for the monitoring and control of credit risk relating to customers of the Division, and include the following units:
    - **Credit control unit** is responsible for monitoring and control processes relating to all customers of the unit and examines the credit portfolio, including recognition of vulnerable areas and the testing of exogenous effects on the credit portfolio, which, inter alia, includes the monitoring of sectorial development, control over proper sectorial classification, the management of the division's watch lists, management and coordination of the quarterly treatment process of problematic debts.

  - **Debt monitoring unit** is responsible for the treatment of debts showing signs of deterioration and current monitoring of accounts using the "Red lights" system. The branches pass-on the debts for treatment by the unit, in a way enabling the early handling of an account suspected as problematic, by reaching an arrangement or transferring it for treatment by the collection centers.
  - **Collection centers.** Treatment of debts passed-on to the collection centers includes: instituting legal proceedings, management and monitoring the treatment of the case, definition of collection targets, formation of debt arrangements with the debtors, handling of the debts not by way of legal proceedings;
  - **The mortgages Subdivision**, in its operations, reports directly to the Head of the Division. The subdivision are responsible for the oversight and control activity in the mortgages sector.
- **Credit risk management wing** serves as the first line of defense for the operations of the corporate division. The wing includes the following units:
  - **Business control department.** A department, independent of the business units, which performs control and monitoring of the credit portfolio as well as current monitoring of all borrowers related to the Division, identification of weaknesses and high-risk borrowers and the timely reduction of risk exposure. The unit is responsible for managing a watch-list of performing borrowers showing negative symptoms, monitoring the implementation of decisions taken by the different committees, editing of reports, monitoring credit default and operating failures and regarding the existence and propriety of credit and collateral documentation and of borrower files, in accordance with defined criteria;
  - **Credit analysis and underwriting department.** The duties thereof include, inter alia, credit analysis, sectorial reviews and reviews of borrower groups; drafting of operational reviews for the analysis of credit risks, monitoring and analysis of credits defined as vulnerable areas and reporting to Management and to the Board of Directors;

    In addition, the department deals with drafting the methodologies used, inter alia as tools for analyzing financial statements, repayment ability, credit reasonability for working capital, the value of collateral and its deployment among the business parties; drafting and maintaining the procedures that support credit management and operation, both as the party responsible and as a partner, responsibility for prescribing sectorial classification methodology, and so forth. Moreover, an ongoing credit management department in the department is responsible for managing the divisional credit committees and the central credit committee, including the updating of the watchlist files prior to the committee meeting, validating the discussion and minutes of the committee and documenting the decisions in the Bank's systems.
  - **The valuation unit,** provides professional and independent assessment of real estate proposed to the Bank as collateral and states its value for collateral purposes;
  - Analytics and reporting team is responsible, inter alia, for the current monitoring intended to avoid deviation from restrictions applying to a single borrower/group of borrowers, and limitations applying to related parties and Officers, as well for the coordination of a part of the reports to the Bank of Israel.
  - **The credit products management and operating department** is responsible for the management of credit products, including the supporting systems employed at the Bank, including the OTZAR system – an underwriting and credit management system at the Corporate Divisions at Discount Bank and at MDB and the Carmel system used for the management of underwriting procedures at the Banking Division and the rating module for business customers. The department is responsible for formulating credit and collateral procedures at the Bank.
  - **The special credit department** is responsible for the handling of large problematic credit cases, mostly through legal proceedings, with the aim of reaching collection and debt repayment arrangements. The department includes a unit operating with the aim of reaching economic recovery possibilities for corporations, in order to avoid, to the extent possible, the need to institute legal proceedings.

Counterparty credit customer exposures. The MO in the Financial Markets Division serves as the first line in monitoring counterparty credit customer exposures.

Second line of defense

The Risk Management Division includes a number of wings engaged in credit risk management:

Credit risk management wing. Four departments operate within the framework of the wing:

- **Policy and credit reporting department,** which, inter alia, is responsible for formation and updating of core documents relating to credit in cooperation with the risk management wing and the business functions, including risk appetite and the credit policy of the Discount Group, the standalone credit policy of the Bank and the credit risk management policy;
- Challenging the core documents relating to credit at the subsidiary companies;
- Current evaluation of the risk profile of the Group and of each of the subsidiary companies, quarterly reporting of credit risk and the monitoring of compliance with restrictions on the credit portfolio at the Bank and at the Group and KRI's;
- **Credit control department** responsible for the retroactive testing, with a risk based outlook, of the manner of credit risk management at all its stages, including the considerations of the professional factors which approve the granting of credit and the appropriateness of the current monitoring thereof, and to provide assessment as to the specific credit quality and the quality of the credit portfolio in general.
- **Opinion rendering department** prepares an independent opinion for credit transactions, is responsible for setting the ratings and classifications and for determining credit loss expenses. The department conducts also an examination of the effectiveness of the credit policy.
- **Problematic Debts Management Department** is responsible for the current process of classification and allowances, implementing the accounting approach and the Bank's procedures in the problematic debts field.

Risk management wing. Three departments operate in the credit field within the framework of the wing.

- **Credit portfolio management department** is responsible for developing business credit rating models, for updating, maintaining and supporting existing credit rating models, for defining credit rating methodologies, for monitoring and reporting credit risk in the business portfolio, for risk-adjusted pricing, for performing and analyzing RAROC calculations.
- **Retail models, capital and stress tests department** is engaged, inter alia, in the development and integration of models for the evaluation of retail credit risk, accompaniment and support of process for underwriting, pricing and monitoring performed at the Banking Division, assistance in the development and integration of advanced models for the rating of retail credit at the subsidiary companies, a recommendation for minimum capital adequacy ratios of the Discount Group and for the performance of stress testing.
- **Market and liquidity risks department** is responsible for, among other things, for counterparty credit, for capital market players, for LDC policy, for custodians, etc.

Supervision and evaluation wing within the framework of which operates, inter alia, the model risk management unit responsible for the validation of models, the monitoring of work plans for the implementation of recommendations stemming from the validation and evaluation of model risks.

Compliance and prohibition of money laundering, internal enforcement and consultancy control wing. The wing manager act as the Chief Compliance Officer. Among others, two units operate within the framework of the wing, as follows:

- **The prohibition of money laundering and the finance of terror unit** – is engaged in the application of the provisions of the Prohibition of Money Laundering Act, the Order and the provisions of Proper Conduct of Banking Business Directive No. 411 in the matter of "prevention of money laundering and finance of terror and identification of customers".
- **Compliance and internal enforcement unit** - responsible for outlining ways for the effective management of the compliance risk at the Bank and at the Group, in order to verify the implementation of the relevant regulation. The unit outlines the compliance risk management methodology at the Group level, including formation of the Bank's compliance and enforcement policy.

Third line of defense

Internal audit conducts independent audits of everything related to risk management processes and the quality of their management. Its duties include, inter alia, audit of credit risk conduct, rendering an independent assessment regarding the implementation of procedures and guidelines of the credit policy documents by the relevant units and office holders at the Bank, examination of data systems supporting the management and control of credit.

Relations between the credit risk management, risk control, compliance and internal audit functions

Credit risk management is conducted and controlled through the three lines of defense, which are subject to senior Management and the Board of Directors.
Monitoring processes at the credit divisions are conducted by the business functions, the control and compliance units, as well as by the functions responsible for operating and management of credit. These functions are, inter alia, responsible for verifying that relevant information is communicated between them, including at the stage of rating of the credit, and that adequate internal controls are in place, intended to reasonably ensure that all relevant information required for review of the debts has been taken into consideration in a proper manner.
The credit divisions in cooperation with the risk management division are expected to define in the credit procedures, methodologies and in the credit management policy document, a clear and uniform standard as regards the conduct of all functions at the Bank involved in the process of approval and management of the credit, including the business functions, the risk management units at the divisions and the functions approving credit.
The risk management division in the second line of defense, leads the formation of the credit policy and the risk appetite in cooperation with the business functions, is engaged in due diligence reviews and control over the identification and classification of problematic debts, examines and verifies the effectiveness of the processes, renders opinions as to the adequacy of the allowance and validates the different models.

Credit underwriting and management processes

The credit underwriting process at the Bank is defined by procedures, credit authority and work processes. The underwriting process is a structured one, which begins with the interface between the customer and the customer relation officer at the Bank, the writing of the application, analysis of the application, stage of approval of the application in accordance with the credit authority, the actual granting of credit, followed by ongoing control of the borrower's file.
An economic and business analysis of the customer is performed as part of the approval of the credit designed to locate and evaluate credit risks inherent in his business. Furthermore, as part of the discussions held by the credit committee, it is being considered whether the approval of the credit reflects acceptance of a reasonable risk on the part of the Bank concurrently with profitability and an appropriate return.
The considerations for the granting of credit to a business customer are mostly based on purpose of credit and repayment ability, financial soundness, business position, burrower rating, and quality of collateral provided by the customer. An additional important parameter is the quality of the customer and past experience with him.
The consumer credit at the Bank is characterized by small amounts and a high distribution. In addition, use is made of analytic models for the purpose of risk rating and calculating the recommendation level for an automatic credit supplement. The models include models for rating existing customers (Credit Scoring), rating new customers (Application Scoring), calculating repayment capability and a red lights system for the swift identification of possible deterioration in a customer's position. In addition to automatic credit, decisions regarding the granting of consumer credit are taken under personal authority or by the relevant credit committee, in accordance with the scope of credit.
Credit underwriting in the mortgage field is performed through a comprehensive examination of the borrower, with emphasis on his solvency, and an examination of the transaction, its purposes and the collateral pledged to secure the credit.

The Bank acts according to procedures that define criteria for identifying credits having a problematic potential, in order to ensure the ongoing monitoring of the quality of the credit portfolio, and where required, the classification of problematic debts and/or creation of allowances at the appropriate time. A process of classifying problematic debts and determination of allowances is made once a quarter by the Bank's Management, and in a manner that would reflect the risk level of the credit portfolio.

The monitoring process of the credit portfolio. The process includes:

- Identifying and locating borrowers having negative indications;
- Identification of customers whose financial condition and/or their ability to honor their obligations towards the Bank have deteriorated, and classifying them, in consequence, as "problematic debts" (debts under the definition of "under special mention", "substandard" and "impaired");
- Determining credit loss expenses that reflect the Bank's expected loss at a specific level. In determining the allowances, the Bank's Management relies on information at hand regarding the borrower, such as: financial soundness, and/or owner guarantees, scope and quality of the collateral held, estimate of the present value of the future cash flows of the debtor;
- Recording of allowances that reflect the Bank's expected loss at a group level. In determining the allowances, the Bank's management is based upon information at hand regarding the borrower, such as: their credit rating, the classification of the debt, the economic sector, the scope and quality of the collateral and an assessment of the risk environment;
- A weekly review of developments in the scope of exposure and in the quality of credit to customers with a high credit exposure regarding OTC derivatives.

Credit underwriting process at IDB Bank. The credit policy states that the underwriting process shall begin with the business units that specialize in a particular segment of customers and act in accordance with specific procedures. The credit risk management unit, which is subject to the chief risk officer in IDB Bank examines requests for credit and prepares an "opinion" on the essence of which, and tests, among other things, whether the credit exposure exceeds the various limitations determined by the credit policy.

Evaluation of credit risk at IDB Bank is based on an internal rating. The model is divided into two stages of analytical processes, Borrower Risk Rating and Transaction Risk Adjustment, which determine the rating of the transaction.

Credit underwriting and management processes at ICC. ICC operates according to policy, procedures and work processes which define the underwriting principles, while using, inter alia, the data of the Credit Office, management and monitoring of the credit portfolio. Procedures for the handling of credit and collateral and the relevant information systems are updated on a regular basis with a view of improving credit management.

Evaluation of credit risk at ICC is based on the following statistical models:

- Application Score model - a statistical model used for determining new customer's risk rating, according to the rating, the level of credit/type of card/the credit terms are determined.
- Behavior scoring model - a statistical model used for determining customer risk rating in accordance with its conduct during the time of it being a borrower of the company.

Every re-evaluation and re-approval of credit facilities is made in accordance with borrower rating based criteria and authority scale defined in the policy document.

Credit risk measurement and reporting systems

Assessment of the risks. The credit risk management concept of the Discount Group is based on advanced systems accepted around the world. Inter alia, the Group makes use of models (statistical and other), based on banking practices, financial data and qualitative questionnaires for the assessment of borrower's risk (probability of default – PD) and the credit losses stemming there from (expected loss given default – LGD).

Scope and characteristics of measurement and reporting systems. The Bank uses several systems supporting credit risk management, as follows:

- Computerized system for the management of credit facilities and for the management of borrower debt, which also enables following up on the volume of the credit file. The system covers all the customers of the Bank's Banking Division having indebtedness in excess of NIS 400 thousand. The system provides information regarding the status of credit and collateral of the borrower, credit facility, guarantees and financial covenants.
- Furthermore, the system supports the customer credit risk management and based upon models for the assessment of risk components (PD and LGD), which are based, among other things, on qualitative questionnaires, quantitative data and banking practice;
- A computerized system for credit scoring and providing credit recommendations for private customers;
- A computerized system for the management of collateral. The system documents all collateral, such as deposits, securities, pledges on real estate assets, fixed assets, securities and floating pledges. The system manages the value of the material collateral securing the debt;
- A computerized system for guarantee management;
- An information system used for assessing the profitability of a single portfolio and of a business unit;
- A computerized system for the computation of risk assets on a Group level, in accordance with Basel guidelines;
- **The Otzar system (credit and attachments management system).** The system is used for the management of the process for underwriting and management of credit at the Corporate Division at the Bank and at MDB. The system has been integrated in all of the units of the Corporate Division at Discount and in selected units of MDB. The infrastructure that has been developed serves as a platform for reporting to the Supervisor of Banks regarding the credit field, and enables, at the present time, the real-time computerized monitoring of a part of the internal and regulatory limitations.

Description of the process of reporting credit risk to senior Management and the Board of Directors

An organized process of reporting to Management and the Board of Directors is in operation within the framework of the quarterly credit risk document of the Discount Group and the Bank (in accordance with Proper Conduct of Banking Business Directive No. 311 – Credit Risk Management), in which are presented central changes in the field of credit risk management, which relate to all credit exposure, including: the scope and composition of the credit portfolio, operating segments, economic sectors, concentration of large borrowers and large borrower groups. Also examined is the quality of the credit portfolio in accordance with the distribution of credit rating of borrowers, the volume of the problematic debt and the credit losses expense with reference to changes in the quality of credit management, as well as exposures of the material subsidiary companies. Furthermore, a report is submitted with respect to compliance with limitations applying to the credit portfolio of the Discount Group, which also relates to compliance with restrictions of the Supervisor of Banks and with goals and internal restrictions of the Bank and of the Group, for the purpose of follow-up and control over compliance with the credit policy of the Bank and over the level of risk which the Group wishes to attain in accordance with its risk appetite.

In addition, an annual review of the credit risk profile is conducted within the framework of the ICAAP process.

The credit quality of credit exposures (CR1)

Credit quality of credit exposure

	Gross balances		Allowances for credit losses or impairment in value	Net balance
	Impaired or in arrears of 90 days or over	Other		
	in NIS millions			
	December 31, 2021			
Debts, excluding bonds	3,149	215,166	3,040	215,275
Bonds	1	40,135	-	40,136
Off-balance sheet exposure	55	121,035	249	120,841
Total	**3,205**	**376,336**	**3,289**	**376,252**
	December 31, 2020			
Debts, excluding bonds	3,782	193,080	3,762	193,100
Bonds	13	39,498	-	39,511
Off-balance sheet exposure	65	98,759	298	98,526
Total	**3,860**	**331,337**	**4,060**	**331,137**

Changes in the balance of impaired debts (CR2)

For details regarding the balance of impaired debts and the movement therein, see “Credit Risks” under “Risks review” in the Board of Directors and Management Report and Note 31 to the financial statements as of December 31, 2020.

Additional disclosure regarding the credit quality of credit exposures (CRB)

The Bank implements the Public Reporting Directives with regard to impaired debts, credit risk and the allowance for credit losses.

Credit Risks Measurement and Reporting. The Bank bases the credit risk concept in accordance with worldwide accepted advanced methods, using models for the assessment of risk (statistical and other) based on banking conduct, financial data and qualitative questionnaires for the assessment of borrower risk (probability of default – PD) and the loss expected there from, inter alia, in view of the scope and quality of the collateral (loss given default – LGD). The Bank and the Group makes use of several measurement and reporting systems supporting credit risk management.

The Bank has established procedures for the identification of problematic credit and the classification of debts as impaired. According to these procedures the Bank classifies problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or impaired.

“In arrears” and “impaired” exposures

A debt is classified as impaired when based on information and updated events, the Bank does not expect to collect all amounts due to it under the contractual terms of the debt agreement. The decision regarding the classification of a debt is based, among other things, on the arrears situation of the debt, evaluation of the financial position and repayment ability of the borrower, evaluation of the primary repayment source of the debt, the existence of collateral and the state thereof, the financial position of guarantors, where applicable, and their undertaking to support the debt and the ability of the borrower to obtain finance from a third party.

A debt is classified as impaired when the principal amounts or interest in its respect are in arrears for 90 days or over, except where the debt is well secured and is in the process of collection. Debts (including bonds and other assets) are in arrears when the principal amount or the interest thereon has not been paid upon their due date. In addition, current loan accounts or current accounts are reported as debts in arrears for 30 days or over, when the account exceeds the approved credit facility for a consecutive period of 30 days or over, or if during a period of 180 days, no amounts covering the debt within the framework of the credit facility, have been credited to the account. Starting with the date on which a debt is classified as impaired, it is treated as a debt that does not accrue interest income (hereinafter: ”non-performing debt”).

Furthermore, any debt, the terms of which had been changed within the framework of a reconstruction of a troubled debt, is classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding ”Proper assessment of credit risks and proper measurement of debts”.

The Supervisor of Banks has published during the Corona crisis a number of Directives, which included relief regarding the treatment of debts and regarding reporting to the public. Within this framework, the Supervisor allowed banks, inter alia, not to classify as problematic debts loans, repayment of which has been deferred due to the Corona crisis, subject to a number of conditions. For additional details, see ”Debts whose terms have been changed within the framework of coping with the Corona virus” in the 2021 Annual Report.

The differences between the definition of arrears and default for accounting purposes and their definition for regulatory purposes. Presented below are the differences between the definition of “arrears” and an “impaired debt” for accounting purposes and the definition of “loans in arrears” for the purposes of measuring the capital adequacy and for regulatory purposes:

- A restructured debt which was classified as interest bearing, shall be considered ”impaired” for accounting purposes, as long as it had not undergone a ”following restructure”, whereas for regulatory purposes such a debt is treated as a performing debt;
- A debt in arrears for over ninety days for regulatory purposes shall include also debts that are not impaired and substandard debts on a collective basis, which will also be considered as loans in arrears, whereas loans in arrears for accounting purposes are discerned during the arrears period between 30 and 89 days and over 90 days.

Troubled debt restructurings. A debt that has undergone a formal troubled debt restructurings, is defined as a debt in respect of which, due to economic or legal circumstances related to financial difficulties of the borrower, the Bank has granted a waiver by way of changing the terms of the debt, so as to alleviate the burden of cash repayments in the short-term (a reduction in or deferment of cash payments due from the borrower), or by way of accepting other assets of the borrower (in full or part) as settlement of the debt.

For the purpose of determining whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank performs a qualitative review of all the terms of the arrangement and the circumstances in which it had been reached in order to determine whether the borrower is experiencing financial difficulties and whether, within the framework of the arrangement, the Bank had granted any waiver to the borrower.

In order to determine as to whether the borrower is experiencing financial difficulties, the Bank examines whether indications for difficulties of the borrower exist at date of the arrangement or for the existence of a reasonable possibility that the borrower will encounter financial difficulties in the absence of the arrangement.

The Bank does not classify a debt as a restructured troubled debt if within the framework of the arrangement the borrower has been granted an immaterial deferment in repayments, considering the frequency of the installments during the contractual maturity period and the expected average maturity of the original debt. In this respect, where several arrangements have been made involving changes in the terms of the debt, the Bank takes into consideration the cumulative effect of prior arrangements for the purpose of determining whether the deferment in repayments is not material.

Techniques used to determine allowances for credit losses and for impairments of bonds of an other than temporary nature

Allowances for credit losses. As part of the implementation of the instruction regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank has developed methodologies and statistical tools for the determination of allowances for credit losses. The Bank has modified the methodologies and tools applied by it, as required in view of the instruction "group allowance for credit losses" (see Note 1 D 4.4 to the financial statements).

The quarterly process for the review of the appropriateness of classifications and of expenses for credit losses in the Bank is an orderly process, which includes specific discussions at the level of the business divisions and at the level of the Bank's Management, as well as discussions regarding the adequacy of the group allowance. In this framework, the Chief Risk Officer heads a committee "the committee for the review of the appropriateness of the allowances for credit losses – independent review", in which all relevant factors participate, including the business, comptroller, SOX unit, internal audit and risk management factors.

The committee's task is to assess, from the quantitative and qualitative aspects, the quarterly process of handling problematic debts, with reference, among other things, to the appropriateness of the specific and group expense, as well as the appropriateness of the control measures applied in reviewing the classification and allowance processes. As part of the discussions regarding the appropriateness of the allowances, processes and controls are being reviewed, as well as different indices in comparison with prior periods at the Bank's and the Group's levels, and in comparison to the industry as a whole, indices that constitute an additional supporting indication for the review of the appropriateness of the processes and results obtained.

Two components being reviewed within the framework of the discussions regarding the appropriateness of the group allowance are: the rate of the decision, according to a formula based on the average rate of accounting write-offs since 2011 (see Note 1 D 6 to the financial statements as of December 31, 2019), and the rate of adjustment, in which in addition, the Bank takes into account additional quantitative and qualitative indicators, including trends regarding the scope of credit, macro-economic data, and assessments of the quality of the credit portfolio in the various sectors.

Allowances for impairments of bonds of an other than temporary nature. The Bank and its relevant subsidiaries examine, in each reporting period, in accordance with generally accepted accounting principles applying to banking corporations, whether the impairment of securities classified to the available-for-sale portfolio and to the held to maturity portfolio is of an other than temporary nature.

For details regarding the considerations on which the aforesaid examination is based and the tests for recognizing an impairment of an other than temporary nature, see Note 1 D 5.7 to the financial statements as of December 31, 2021.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis

	December 31, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense release)	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,534	1,446	19	69	1,524	1,236	19	8	2	1	19
Mining & Quarrying	380	347	32	1	369	220	32	[12]31	2	-	7
Industry	15,204	14,313	526	365	15,079	9,010	526	217	(18)	36	282
Construction and Real Estate - Construction	43,155	42,411	639	105	[6]43,135	20,147	639	174	43	35	351
Construction and Real Estate - Real Estate Activity	14,237	13,853	356	28	14,186	12,175	355	109	(15)	(5)	213
Electricity and Water	5,241	5,203	13	25	4,546	2,935	13	2	(3)	3	21
Commerce	22,892	21,938	532	422	22,451	18,014	532	202	(190)	(50)	419
Hotels, Hotel Services and Food	2,306	1,946	291	69	2,305	1,976	291	77	(51)	(2)	53
Transportation and Storage	6,358	5,889	382	87	6,118	5,073	382	180	(19)	18	139
Communication and Computer Services	2,400	2,311	52	37	2,366	1,657	52	45	(58)	(27)	77
Financial Services	22,375	22,294	54	27	19,613	13,924	54	-	(12)	(6)	91
Other Business Services	8,228	7,563	255	410	8,180	5,823	255	120	(67)	6	163
Public and Community Services	11,004	10,842	62	100	10,998	9,313	62	22	(21)	(2)	35
Total Commercial	**155,314**	**150,356**	**3,213**	**1,745**	**150,870**	**101,503**	**3,212**	**1,187**	**(407)**	**7**	**1,870**
Private Individuals - Housing Loans	63,655	59,955	275	3,425	63,655	53,650	275	-	6	6	255
Private Individuals - Other	67,437	65,339	524	1,574	67,429	30,200	524	230	(169)	38	765
Total Public	**286,406**	**275,650**	**4,012**	**6,744**	**281,954**	**185,353**	**4,011**	**1,417**	**(570)**	**51**	**2,890**
Banks in Israel	2,549	2,549	-	-	1,348	1,300	-	-	-	-	-
Israeli Government	28,893	28,893	-	-	1,659	1,131	-	-	-	-	-
Total Activity in Israel	**317,848**	**307,092**	**4,012**	**6,744**	**284,961**	**187,784**	**4,011**	**1,417**	**(570)**	**51**	**2,890**

For footnotes see next page.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense release)	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	175	49	-	126	175	162	-	-	(1)	-	2
Mining & Quarrying	332	332	-	-	-	-	-	-	-	-	-
Industry	5,437	5,190	72	175	4,984	3,055	72	60	(45)	-	55
Construction and Real Estate - Construction	142	142	-	-	142	123	-	-	(29)	(29)	1
Construction and Real Estate - Real Estate Activity	11,811	10,065	790	956	11,552	10,324	751	70	(52)	(2)	158
Electricity and Water	892	892	-	-	540	351	-	-	1	-	1
Commerce	9,403	8,843	435	125	9,280	6,549	435	-	40	27	66
Hotels, Hotel Services and Food	1,752	518	981	253	1,738	1,671	981	290	(49)	-	50
Transportation and Storage	976	976	-	-	814	793	-	-	(2)	-	6
Communication and Computer Services	354	351	3	-	218	154	3	3	9	9	1
Financial Services	10,706	10,600	41	65	2,302	1,607	41	13	(4)	-	8
Of which: Federal agencies in the U.S.[7]	7,031	7,031	-	-	-	-	-	-	-	-	-
Other Business Services	901	825	74	2	821	538	74	-	-	-	5
Public and Community Services[8]	4,772	4,163	408	201	4,225	3,889	406	-	5	-	35
Total Commercial	**47,653**	**42,946**	**2,804**	**1,903**	**36,791**	**29,216**	**2,763**	**436**	**(127)**	**5**	**388**
Private Individuals - Housing Loans	299	292	5	2	299	294	5	-	-	-	3
Private Individuals - Other	2,059	2,018	38	3	2,058	1,333	38	-	(3)	-	8
Total Public	**50,011**	**45,256**	**2,847**	**1,908**	**39,148**	**30,843**	**2,806**	**436**	**(130)**	**5**	**399**
Banks Outside of Israel	4,442	4,442	-	-	2,495	2,412	-	-	-	-	-
Governments Outside of Israel	6,420	6,420	-	-	1,533	1,533	-	-	7	-	22
Total Activity Outside of Israel	**60,873**	**56,118**	**2,847**	**1,908**	**43,176**	**34,788**	**2,806**	**436**	**(123)**	**5**	**421**
Total	**378,721**	**363,210**	**6,859**	**8,652**	**328,137**	**222,572**	**6,817**	**1,853**	**(693)**	**56**	**3,311**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 222,572 million, NIS 42,251 million, NIS 1,207 million, NIS 5,524 million, NIS 107,167 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Including acquisition groups in an amount of NIS 313 million.

(7) Including mortgage backed securities in the amount of NIS 6,673 million, issued by GNMA and in the amount of NIS 358 million, issued by FNMA and FHLMC.

(8) Including mainly municipal bonds and bonds of states in the U.S.

(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,633 million.

(10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.

(11) The balance of commercial debts includes housing loans in the amount of NIS 252 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2020										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,330	1,268	18	44	1,315	1,036	18	8	2	-	18
Mining & Quarrying	640	632	6	2	640	408	6	6	-	5	5
Industry	15,116	13,900	796	420	14,939	8,774	796	234	122	13	346
Construction and Real Estate - Construction	[6]33,119	31,700	630	789	[6]33,050	16,999	630	153	115	39	342
Construction and Real Estate - Real Estate Activity	13,186	12,492	356	338	13,058	11,494	356	140	137	-	223
Electricity and Water	4,433	4,377	39	17	3,994	2,897	39	3	18	3	27
Commerce	22,581	21,085	639	857	22,300	18,007	629	181	215	49	560
Hotels, Hotel Services and Food	2,126	1,619	393	114	2,126	1,830	393	112	83	(3)	102
Transportation and Storage	6,177	5,523	446	208	6,008	4,911	446	193	65	10	176
Communication and Computer Services	2,262	2,111	67	84	2,201	1,651	67	61	10	2	108
Financial Services	16,492	16,050	357	85	13,742	9,854	357	299	7	2	96
Other Business Services	7,871	6,930	284	657	7,830	5,546	284	73	167	32	235
Public and Community Services	9,884	9,621	131	132	9,862	8,839	131	23	24	-	53
Total Commercial	**135,217**	**127,308**	**4,162**	**3,747**	**131,065**	**92,246**	**4,152**	**1,486**	**965**	**152**	**2,291**
Private Individuals - Housing Loans	47,628	45,994	321	1,313	47,628	42,457	321	2	69	19	255
Private Individuals - Other	65,857	62,037	711	3,109	65,850	30,397	711	259	449	185	973
Total Public	**248,702**	**235,339**	**5,194**	**8,169**	**244,543**	**165,100**	**5,184**	**1,747**	**1,483**	**356**	**3,519**
Banks in Israel	2,557	2,557	-	-	964	849	-	-	-	-	-
Israeli Government	32,129	32,129	-	-	2,241	1,755	-	-	-	-	-
Total Activity in Israel	**283,388**	**270,025**	**5,194**	**8,169**	**247,748**	**167,704**	**5,184**	**1,747**	**1,483**	**356**	**3,519**

For footnotes see next page.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2020										
	Total Credit Risk(1)				Debts(2)and off-balance sheet Credit Risk (excluding Derivatives)(3)						
									Credit Losses(4)		
	Total(9)	Credit Performance Rating(10)	Problematic(5)	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts(2)(11)	Problematic(5)	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	276	276	-	-	276	192	-	-	-	-	2
Mining & Quarrying	301	301	-	-	20	20	-	-	-	-	-
Industry	6,249	5,743	221	285	5,766	3,408	221	24	2	(2)	63
Construction and Real Estate - Construction	183	183	-	-	183	132	-	-	(3)	(4)	2
Construction and Real Estate - Real Estate Activity	11,393	9,219	1,123	1,051	10,979	9,780	1,061	185	116	11	249
Electricity and Water	501	501	-	-	184	18	-	-	-	-	-
Commerce	7,213	6,414	175	624	7,081	4,441	175	-	(18)	2	49
Hotels, Hotel Services and Food	1,833	363	1,367	103	1,803	1,738	1,367	299	96	-	103
Transportation and Storage	848	836	12	-	673	656	-	-	3	-	8
Communication and Computer Services	168	165	3	-	151	115	3	3	3	2	1
Financial Services	10,578	10,489	52	37	2,494	1,343	52	14	6	-	13
Of which: Federal agencies in the U.S.(7)	6,889	6,889	-	-	-	-	-	-	-	-	-
Other Business Services	919	802	5	112	782	535	5	-	(2)	-	5
Public and Community Services(8)	4,482	3,939	116	427	3,791	3,521	116	-	14	-	31
Total Commercial	**44,944**	**39,231**	**3,074**	**2,639**	**34,183**	**25,899**	**3,000**	**525**	**217**	**9**	**526**
Private Individuals - Housing Loans	199	181	6	12	199	194	6	-	1	-	3
Private Individuals - Other	1,850	1,840	6	4	1,849	1,286	6	-	3	-	11
Total Public	**46,993**	**41,252**	**3,086**	**2,655**	**36,231**	**27,379**	**3,012**	**525**	**221**	**9**	**540**
Banks Outside of Israel	4,569	4,569	-	-	2,761	2,707	-	-	(1)	-	-
Governments Outside of Israel	3,775	3,775	-	-	1,718	1,718	-	-	15	-	15
Total Activity Outside of Israel	**55,337**	**49,596**	**3,086**	**2,655**	**40,710**	**31,804**	**3,012**	**525**	**235**	**9**	**555**
Total	**338,725**	**319,621**	**8,280**	**10,824**	**288,458**	**199,508**	**8,196**	**2,272**	**1,718**	**365**	**4,074**

Footnotes:
(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts(2), bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 199,508 million, NIS 41,692 million, NIS 1,074 million, NIS 6,399 million, NIS 90,052 million, respectively.
(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.
(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
(6) Including acquisition groups in an amount of NIS 214 million.
(7) Including mortgage backed securities in the amount of NIS 6,385 million, issued by GNMA and in the amount of NIS 504 millions, issued by FNMA and FHLMC.
(8) Including mainly municipal bonds and bonds of states in the U.S.
(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,022 million.
(10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
(11) The balance of commercial debts includes housing loans in the amount of NIS 212 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
(12) Reclassified - following improvement of data.

Credit exposures according to remaining maturity period

General. The exposures presented below represent the anticipated future cash flows according to the maturity period in respect to balance-sheet credit risk and off-balance-sheet credit risk (apart from off-balance-sheet credit risk arising from derivative instruments) in accordance with the principles applied in the preparation of Note 33 to the financial Statements, "Assets and Liabilities according to Currency and Maturity Periods". Assets in respect of derivative instruments were classified in accordance with the principles applied in the preparation of Note 28 to the financial statements, "Derivative Instrument Activity".

	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	No fixed maturity date	Total
	in NIS millions				
	December 31, 2021				
Balance-sheet credit exposure:					
Commercial	68,381	51,751	29,041	1,169	150,342
Private Individuals -Housing Loans	4,300	15,372	48,770	27	68,469
Private Individuals -Other	19,504	12,139	924	95	32,662
Assets in respect of derivative instruments	4,166	1,233	748	-	6,147
Total Public	**96,351**	**80,495**	**79,483**	**1,291**	**257,620**
Banks and Governments	13,766	28,242	25,163	-	67,171
Total Balance-sheet credit exposure	**110,117**	**108,737**	**104,646**	**1,291**	**324,791**
Of which, bonds	3,998	16,393	27,481	-	47,872
Total off-balance-sheet credit exposure	**75,188**	**27,965**	**5,429**	**16,089**	**124,671**
	December 31, 2020				
Balance-sheet credit exposure:					
Commercial	63,807	44,684	26,252	1,158	135,925
Private Individuals -Housing Loans	3,650	12,631	37,371	28	53,639
Private Individuals -Other	20,437	11,351	618	78	32,501
Assets in respect of derivative instruments	1,872	1,303	865	-	4,040
Total Public	**89,766**	**69,969**	**65,106**	**1,264**	**226,105**
Banks and Governments	10,146	13,782	20,492	-	44,420
Total Balance-sheet credit exposure	**99,912**	**83,751**	**85,598**	**1,264**	**270,525**
Of which, bonds	4,299	13,115	29,457	-	46,871
Total off-balance-sheet credit exposure	**61,356**	**24,647**	**3,502**	**11,165**	**100,670**

Distribution of exposures according to main geographical areas and problematic debts according to main geographical areas

The data presented above, within the framework of "Total credit risk according to economic sectors on a consolidated basis" comprise also disclosure regarding the distribution of exposure and of problematic debts according to principal geographic areas.

Exposure to Foreign Countries – Consolidated

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of capital, the lower of the two – December 31, 2021[1]

	December 31, 2021												
	Balance sheet exposure[2]									Off-balance sheet exposure[2][3]			
	Across the border balance sheet exposure			Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure[2]	
The Country	To governments[4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
	In NIS millions												
United States	3,273	2,044	3,085	37,939	28,891	9,048	17,450	2,066	201	7,805	170	3,786	4,616
PIGS[5]	-	4	15	-	-	-	19	-	-	155	-	5	14
Other[7]	365	3,378	4,029	-	-	-	7,772	36	35	[6]6,910	-	5,111	2,661
Total exposure to foreign countries	**3,638**	**5,426**	**7,129**	**37,939**	**28,891**	**9,048**	**25,241**	**2,102**	**236**	**14,870**	**170**	**8,902**	**7,291**
Of which - Total exposure to LDC countries	103	46	342	-	-	-	491	-	-	129	-	223	268

Notes:

(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Governments, official institutions and central banks.

(5) Portugal, Italy, Greece and Spain.

(6) Including the transfer of credit risk to a consortium of international insurers in the following countries: Switzerland – an amount of NIS 2471 million and Germany – an amount of NIS 2,539 million.

The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

B. Information regarding countries the amount of exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% of capital, whichever is lower – December 31, 2021

As of December 31, 2021 the Bank had no such exposure.

C. Information regarding balance-sheet exposure to foreign countries having liquidity problems, for the year ending December 31, 2021

1. Information regarding balance-sheet exposure to foreign countries

A balance sheet exposure of NIS 44 million exists at December 31, 2021, in respect of countries having liquidity problems.

2. Information regarding balance-sheet exposures that have undergone restructuring

As of December 31, 2021 the Bank had no such exposure.

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of the Bank's capital, the lower of the two - December 31, 2020[1]

	December 31, 2020												
	Balance sheet exposure[2]									Off-balance sheet exposure[2][3]			
	Across the border balance sheet exposure			Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure[2]	
The Country	To governments[4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
	In NIS millions												
United States	742	2,023	3,131	33,422	24,170	9,252	15,148	2,210	198	7,679	121	4,098	1,798
PIGS[5]	-	8	13	-	-	-	21	-	-	213	-	8	13
Other	168	2,995	3,924	-	-	-	7,087	26	15	[6]6,004	3	4,537	2,550
Total exposure to foreign countries	**910**	**5,026**	**7,068**	**33,422**	**24,170**	**9,252**	**22,256**	**2,236**	**213**	**13,896**	**124**	**8,643**	**4,361**
Of which - Total exposure to LDC countries	103	44	182	-	-	-	329	-	-	122	-	231	98

Notes:

(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, commercial criticized exposure and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collaterals that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Governments, official institutions and central banks.

(5) Portugal, Italy, Greece and Spain.

(6) Including the transfer of credit risk to a consortium of international insurers in the following countries: Switzerland – an amount of NIS 2,291 million and Germany – an amount of NIS 2,188 million.

The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

B. Information regarding countries the overall exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% of capital, whichever is lower - December 31, 2020

Total exposure to foreign countries as at December 31, 2020, including exposure to Britain on a consolidated basis, in the amount of NIS 2,365 million.

C. Information regarding the balance-sheet exposure to foreign countries having liquidity troubles for the year ended December 31, 2020

1. Information regarding balance-sheet exposure to foreign countries

A balance sheet exposure of NIS 35 million existed at December 31, 2020, in respect of countries having liquidity problems.

2. Information regarding balance-sheet exposures that have undergone restructuring

As of December 31, 2020 the Bank had no such exposure.

For details regarding the movement in the balance of the allowance for credit losses, see Notes 13 and 31 to the financial statements as of December 31, 2020. For details regarding the aging (arrears) of credit exposure in arrears, see Note 31 to the financial statements as of December 31, 2020. For details regarding restructured credit exposure, see "Credit Risks" under "Risks review" in the Board of Directors and Management Report and Note 31 to the financial statements as of December 31, 2020.

Qualitative disclosure requirements regarding credit risk mitigation techniques (CRC)

Credit risk mitigation

General qualitative disclosure regarding the credit risk mitigation. According to the Basel guidelines, banking corporations may obtain relief from capital requirements with respect to usage of methods of credit risks mitigation (CRM), subject to legal certainty. Legal certainty requires, among other things, that all documents securing a transaction, setoff documents, guarantees, etc. shall be binding on all parties involved and may be legally enforceable in all relevant judiciary fields.

Collateral management and control processes. Reflected in the credit policy of the Discount Group, are central principles regarding the treatment of collateral. A further expansion of the manner of treatment and the management of collateral is contained in the internal procedures of each company in the Group, which comprise an integral part of the framework for the treatment and management of collateral. Management and control processes are performed by the different control units, as well as in the Legal Advisory Division, as mentioned above.

Issue of credit-linked debt notes. The Bank issued credit-linked debt notes (CLN), a product recognized as a qualified financial collateral, which enables the release of risk assets in respect of credit exposure, as well as comprising a deductible collateral in computing customer indebtedness in accordance with Proper Conduct of Banking Business Directive No. 313.

Purchase of a policy insuring against credit risk relating to guarantees under the Sale Act and performance bonds. The Bank and subsidiary companies in the Group purchased policies insuring against credit risk related to Sale Act guarantees and Performance bonds, an action reducing risk assets by the transfer of credit risk to reinsurers abroad.

Purchase of a credit risk insurance policy with respect to the financing of land for building projects. The Bank has purchased a credit risk insurance policy with respect to the financing of land for building projects, a move that allows a reduction in risk assets in view of the transfer of the credit risk to foreign reinsurers.

credit risk insurance policies amounted to a total of NIS 25,608 million as of December 31, 2021, compared with NIS 21,955 million as of December 31, 2020.

The mitigation of credit risk relating to different entities. The Bank's policy is to enter into transactions in financial derivatives only with entities with which an ISDA agreement had been signed. This agreement mitigates credit risk by permitting the Netting of liabilities and mutual demands stemming from over the counter derivative transactions in cases of insolvency of the counterparty.

The credit risk applying to derivatives is mitigated by means of collateral. The transfer of collateral in agreements with banks engaged in significant derivative activity is regularized by Annex CSA (Credit Support Annex) to the ISDA agreement. Deviations in this matter are brought before the Board of Directors for approval.

IDB Bank transacts business only with entities with which ISDA agreements had been signed.

MDB applies off-balance sheet netting with respect to transactions in derivative instruments with entities with which netting agreements had been signed that comply with ISDA rules. Most entities active in derivative instrument transactions have signed the ISDA agreement.

The mitigation of clearing risks. The clearing of derivative transactions with foreign banks and financial institutions constitutes the main source for the Bank's exposure to clearing risks. In order to reduce, to the extent possible, the clearing risk inherent in transactions of this kind (according to the type of transaction and the currency thereof), the Bank uses the services of an international settlement system (CLS – Continuous Linked Settlement), serving as a neutral broker, who concurrently transfers the payments by the two parties to the transaction to each of the parties to the transaction, thus finalizing the transaction.

Mitigating the risk in respect of credit concentration

Concentration risk is the risk of a material financial loss stemming from the lack of decentralization in the credit portfolio. Concentration risk may arise also as a result of risk factors having high correlation. Such correlation may be found in the direct exposure to borrower groups, to economic sectors, to geographical areas, to counterparties having correlated performance, and to collaterals having high correlation. The concentration risk may intensify the damage caused in times of crisis.

Spreading of the credit risk is reached, among other things, by the spreading of the credit portfolio over a large number of borrowers/groups of borrowers in various economic sectors and industries.

Mitigating the credit risk in respect of the concentration of borrowers/groups of borrowers. With a view of assessing credit risks at the Group's level, the Bank holds an ongoing monitoring and follow-up of exposure to large borrowers/groups of borrowers with indebtedness exceeding 10% of the Bank's equity and compliance with the Bank of Israel limitations and within internal limitations determined by the Bank. In addition, the Bank conducts surveys and holds periodic discussions with respect to the borrower groups, the largest in the Group.

The Bank complies with the Bank of Israel limitations in respect of a single borrower and in respect of the large borrower groups.

The limitations relating to borrower/borrower groups concentration, have been updated to the requirements of Proper Conduct of Banking Business Directive No. 313 in the matter of limitations on the indebtedness of a borrower and of a group of borrowers.

Mitigating the credit risk in respect of concentration according to economic sectors. The Bank performs industry surveys of various economic sectors as well as current surveys of the situation of the economic sectors in Israel in order to evaluate the credit risk at the industry level.

Within the framework of the individual application for credit, an analysis of the economic sector of the borrower is performed and it is examined whether the application is in line with the credit policy according to economic sectors. The Bank complies with the Bank of Israel limitations regarding economic sectors.

Mitigating credit risk in respect of holding companies and transactions for the financing of acquisition of means of control in them. The Group, and mostly the Bank, have granted credit to holding companies and capital transactions for the financing of means of control. The principal repayment ability of the loan is based upon the cash flows of the active investee companies, which is transferred to the holding companies by way of dividends, management fees and repayment of shareholders' loans.

Due to the high dependence of the repayment ability of the investee companies, held directly or indirectly by the holding company, on the quality of the collateral, the credit granted to holding companies and transactions for the financing of acquisition of means of control defined as an area having a high risk profile.

The credit policy includes internal limitations, applying to this segment.

Credit risk mitigation techniques – Review (CR3)

Methods for credit risk mitigation - Quantitative disclosure

	Unsecured	Secured							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount
	in NIS millions								
	December 31, 2021								
Debts, excluding bonds	175,202	40,073	16,129	33,279	9,335	6,794	6,794	-	-
Bonds	40,136	-	-	-	-	-	-	-	-
Total	**215,338**	**40,073**	**16,129**	**33,279**	**9,335**	**6,794**	**6,794**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over(1)	1,218	1,478	794	143	48	1,335	746	-	-
	December 31, 2020								
Debts, excluding bonds	159,296	33,804	15,277	25,748	7,221	8,056	8,056	-	-
Bonds	39,511	-	-	-	-	-	-	-	-
Total	**198,807**	**33,804**	**15,277**	**25,748**	**7,221**	**8,056**	**8,056**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over(1)	1,090	1,338	792	274	15	1,064	777	-	-

:Note

(1) Not including an accumulating impaired debt in the amount of NIS 404 million (December 31,2020: NIS 635 million)

Qualitative disclosures regarding banking corporations' use of external credit ratings in the standardized approach to credit risk (CRD)

Credit risk according to the standardized approach

The risk weighting with regard to the credit exposures is performed on the basis of the standardized approach. In accordance with this approach, the weightings of the risk depend on the type of exposure and, in some instances, on the credit ratings that relate to them.

The Bank and MDB rely on the credit ratings of S&P company, a recognized international ratings agency (ECAI), as the sole rater for the purpose of weighting the risk exposures. IDB Bank makes use of ratings from a number of international rating agencies – Fitch, Moody's and S&P.

Use of the aforesaid ratings is done in relation to the following credit exposures: loans to governments, deposits with banks and investments in securities.

The Bank attributes the various credit exposures to risk groups in accordance with the standardized mapping published by the Supervisor of Banks.

The Bank makes use of public credit ratings, mainly in matters pertaining to investments in securities, which have been rated specifically by a recognized rating agency. The risk weighting attributed to the security is based on the public rating given to it.

Standardized approach – credit risk exposure and credit risk mitigation effects (CR4)

Exposure to credit risk and effects of credit risk mitigation

	Exposure before CCF and CRM		Exposure after CCF and CRM		RWA and RWA density	
	Balance sheet amount	Off-balance sheet amount	Balance sheet amount	Off-balance sheet amount	RWA	RWA density
	in NIS millions					In %
	December 31, 2021					
Types of assets						
Sovereigns, their central banks and national monetary authority	92,158	542	92,834	35	180	0%
Public sector entities (PSE) which are not central governments	9,059	1,642	10,389	882	2,443	22%
Banks (including multilateral development banks)	4,389	644	6,913	1,073	1,656	21%
Securities corporations	35	1,334	33	176	42	20%
Corporations	98,568	65,207	90,757	21,428	102,581	91%
Retail exposure to individuals	30,732	37,720	27,836	3,636	23,638	75%
Loans to small businesses	15,156	6,934	12,691	1,166	10,399	75%
Secured by residential property	53,682	10,042	53,647	1,120	29,098	53%
Secured by commercial real estate	4,289	85	4,269	48	4,317	100%
Loans in arrears	2,664	465	1,783	119	2,454	129%
Other assets	9,578	655	9,578	327	8,319	84%
Total	**320,310**	**125,270**	**310,730**	**30,010**	**185,127**	
	December 31, 2020					
Types of assets						
Sovereigns, their central banks and national monetary authority	75,501	498	76,164	54	174	0%
Public sector entities (PSE) which are not central governments	8,678	858	9,981	424	2,199	21%
Banks (including multilateral development banks)	5,082	181	9,614	948	2,167	21%
Corporations	(1)88,614	50,149	(1)83,037	17,068	(1)92,792	93%
Retail exposure to individuals	30,306	36,605	25,298	3,533	21,653	75%
Loans to small businesses	14,378	6,626	11,893	1,114	9,763	75%
Secured by residential property	42,271	5,204	42,261	835	22,928	53%
Secured by commercial real estate	(1)4,233	-	(1)4,214	-	(1)4,214	100%
Loans in arrears	2,360	428	1,568	45	2,121	131%
Other assets	8,803	708	8,803	354	7,114	78%
Total	**280,226**	**101,257**	**272,833**	**24,375**	**165,125**	

Footnote:

(1) Improvement of the data.

Standardized approach – exposures by asset classes and risk weights (CR5)

Exposure according to classes of assets and risk weights

	0%	20%	35%	50%	60%	75%	100%	150%	Total amount of credit exposure (after CCF and CRM)
	in NIS millions								
	December 31, 2021								
Sovereigns, their central banks and national monetary authority	92,639	63	-	-	-	-	167	-	92,869
Public sector entities (PSE) which are not central governments	1,447	8,362	-	1,383	-	-	79	-	11,271
Banks (including multilateral development banks)	-	7,842	-	113	-	-	31	-	7,986
Securities corporations	-	209	-	-	-	-	-	-	209
Corporations	-	11,655	-	860	-	-	99,371	299	112,185
Retail exposures for private individuals	-	-	-	-	-	31,335	137	-	31,472
Loans to small businesses	-	-	-	-	-	13,832	25	-	13,857
Secured by residential property	-	-	14,455	17,631	13,396	8,398	887	-	54,767
Secured by commercial real estate	-	-	-	-	-	-	4,317	-	4,317
Loans in arrears	-	-	-	-	-	-	798	1,104	1,902
Other assets	2,225	34	-	-	-	-	6,313	1,333	9,905
Of which: in respect of shares	-	-	-	-	-	-	632	990	1,622
Total	**96,311**	**28,165**	**14,455**	**19,987**	**13,396**	**53,565**	**112,125**	**2,736**	**340,740**
	December 31, 2020								
Sovereigns, their central banks and national monetary authority	76,027	46	-	-	-	-	107	38	76,218
Public sector entities (PSE) which are not central governments	1,537	7,540	-	1,274	-	-	54	-	10,405
Banks (including multilateral development banks)	-	10,436	-	93	-	-	33	-	10,562
Corporations	-	8,762	-	722	-	-	(1)90,506	115	100,105
Retail exposures for private individuals	-	-	-	-	-	28,712	119	-	28,831
Loans to small businesses	-	-	-	-	-	12,978	29	-	13,007
Secured by residential property	-	-	12,559	13,568	7,486	8,904	579	-	43,096
Secured by commercial real estate	-	-	-	-	-	-	(1)4,214	-	4,214
Loans in arrears	-	-	-	-	-	-	596	1,017	1,613
Other assets	2,601	52	-	-	-	-	5,302	1,202	9,157
Of which: in respect of shares	-	-	-	-	-	-	257	848	1,105
Total	**80,165**	**26,836**	**12,559**	**15,657**	**7,486**	**50,594**	**101,539**	**2,372**	**297,208**

Footnote:

(1) Improvement of the data.

Additional credit risk information that is not included in the third pillar disclosure requirements

Additional details regarding the credit risks – including: quality of the credit and problematic credit risk; credit exposure to foreign financial institutions; credit risks in housing loans; credit risk of private individuals (excluding housing credit risk); credit risk in relation to the construction and real estate sector; credit risk in respect of leveraged finance – presented in Chapter C of the Directors and Management Report regarding ”Risks review” and in Note 31 to the financial statements.

Counterparty credit risk

Qualitative disclosure related to counterparty credit risk (CCRA)

General disclosure regarding exposure related to counterparty credit risk

Counterparty credit risk is the risk that the counterparty to the transaction will be in default before the final settlement of the cash flows in respect of the transaction.

Exposure related to counterparty credit risk refer to activity in derivative financial instruments, the finance of securities transactions (SFT) and REPO transactions.

The Bank's operations in derivative financial instruments. The singularity of credit risk in such transactions stems from the fact that the stated value of the transaction does not necessarily reflect the credit risk involved therein.

The Bank's policy as regards the management of counterparty credit risk is based on the counterparty credit risk management policy document and clearing, which is brought for approval of the Board of Directors at least once every year.

Exposure of the Group to counterparty credit risk arises both with respect to banks and international financial institutions and with respect to customers.

The framework of exposure to international financial institutions is approved at Group level on the basis of an internal model. The approved framework is allocated by the Bank among the companies in the Group.

Activity in derivatives is conditional on the prior approval of the credit facility that determines limitations on counterparty exposure. The framework of exposure to customers is approved in accordance with credit approval authorizations.

Exposure of central counterparties (CCP). The Bank works with a clearing house (LCH), which is a Qualifying Central Counterparty that meets the international standards for financial infrastructures.

The monitoring of counterparty credit risk exposure is performed as follows:

- Procedures exist for the identification and measurement of the risk, making an extensive use of designated models, the allocation of facilities for operation, and the measurement of the extent of their use.
- In the event of finding that a borrower has an exposure/sensitivity to changes in exchange rates and/or prices of commodities, the business function is required to examine the extent of the customer's sensitivity from an overall perspective, while taking into consideration the array of criteria requiring the customer's inclusion in the list of sensitive customers and weighing and quantifying the sensitivity to changes in the exchange rates and/or the prices of commodities embodied in its activity.
- A periodic process exists for the testing of model coefficients, which are being updated according to the level of fluctuations in the financial markets and the Bank's risk appetite (updating of the "Add-On" coefficients, Value coefficients regarding collateral in the model applying to heavy traders on the capital market).
- A control layout exists that, inter alia, includes limitation and warning lines, determined in accordance with the Bank's risk appetite levels. The effectiveness of restrictions and alert lines are being periodically examined by risk management (second line of defense), while modifying them to the Bank's risk appetite and the quality of counterparties.
- In accordance with Proper Conduct of Banking Business Directive No. 330, the Bank manages the activity of customers operating on the capital market and in OTC activity (securities and derivative instruments), including speculative customers.

In accordance therewith, the Bank maintains a current and periodic reporting system analyzing, inter alia, the activity in OTC derivatives, activity in securities, the development of risk and analysis of changes in exposure and in the level of risk of the customer. Furthermore, the activity of speculative customers is managed against full and liquid collateral, with defined risk appetite and additional limitations respectively.

- Current reporting layouts to business and control functions exist with respect to deviations and to the proximity to full utilization of limitations.

All transactions relating to counterparty credit risk, may be subject to credit risk mitigation in accordance with the credit authority ranking. The methods approved for credit risk mitigation (CRM) include:

- Net setoff agreements (ISDA agreements or other agreements approved by the Bank's legal advisory department);
  Collateral;
- Stop-loss agreements permitting the Bank to close outstanding positions;
- Mutual termination of transactions between the parties.

Drafts and Instructions published during 2021

Draft Directive regarding the standardized approach for measuring counterparty credit risk exposures. In March 2014, the Basel Committee on Banking Supervision (BCBS) issued, inter alia, a Directive regarding the "The standardized approach for measuring counterparty credit risk exposures SA-CCR". In October 2021, the Supervisor of Banks published a draft update to Proper Conduct of Banking Business Directive No. 203A, which includes guidelines for the treatment of counterparty credit risk in accordance with the SA-CCR. The applicable date as from July 1, 2022. The said approach replaces the approaches existing in Proper Conduct of Banking Business Directive No. 203 (the CEM approach) for the calculation of exposure to a counterparty in the case of default (EAD). The principal changes in the new approach relate to a different treatment of the offsetting layout, which include agreements for the matching of margins to offsetting layouts that do not include margin matching agreements, updated regulatory risk coefficients and the distribution of derivative exposure in offsetting layouts to hedge layouts, allowing offsetting of exposure in full or in part as a derivative of accepted netting agreements (such as CSA).

Analysis of exposure to counterparty credit risk (CCR) according to the regulatory approach (CCR1)

	Replacement cost	Potential future exposure	EAD after CRM	RWA
	in NIS millions			
	December 31, 2021			
Current exposure method	2,770	2,074	4,187	2,185
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	3,570	2,362
Total	**2,770**	**2,074**	**7,757**	**4,547**
	December 31, 2020			
Current exposure method	2,350	1,575	3,204	2,034
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	1,741	667
Total	**2,350**	**1,575**	**4,945**	**2,701**

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
	in NIS millions	
	December 31, 2021	
Total portfolios for which CVA is calculated according to the standardised approach	**4,161**	**1,656**
	December 31, 2020	
Total portfolios for which CVA is calculated according to the standardised approach	**3,160**	**1,763**

The increase in the allocation of capital in respect of the adjustment of revaluation to credit risk stems from an increase in the derivatives activity with customers.

Standardized approach – exposures to counterparty credit risk (CCR) according to regulatory portfolio and risk weights

	0%	20%	50%	75%	100%	Total credit exposure
			in NIS millions			
			December 31, 2021			
Sovereigns	1,247	-	-	-	-	1,247
Public sector entities (PSE) which are not central governments	-	480	-	-	-	480
Banks (including multilateral development banks)	-	1,638	-	-	3	1,641
Securities corporations	-	280	-	-	-	280
Corporations	-	50	7	-	4,022	4,079
Housing mortgages						
Regulatory retail portfolios	-	-	-	2	26	28
Small business	-	-	-	1	1	2
Total	**1,247**	**2,448**	**7**	**3**	**4,052**	**7,757**
			December 31, 2020			
Sovereigns	1,112	-	-	-	-	1,112
Public sector entities (PSE) which are not central governments	-	380	-	-	-	380
Banks (including multilateral development banks)	-	994	-	-	4	998
Corporations	-	34	10	-	2,403	2,447
Housing mortgages	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	7	7
Small business	-	-	-	-	1	1
Total	**1,112**	**1,408**	**10**	**-**	**2,415**	**4,945**

Composition of collateral with respect to counterparty credit risk exposure (CCR) (CCR5)

	Collateral used in derivatives transactions				Collateral used in securities financing transactions	
	Fair value of collateral obtained		Fair value of collateral deposited		Fair value of collateral obtained	Fair value of collateral deposited
	Detached	Undetached	Detached	Undetached		
	in NIS millions					
	December 31, 2021					
Cash – local currency	29	89	196	22	-	-
Cash – other currencies	-	364	-	1,863	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Shares	-	-	-	-	-	-
Other collateral	-	183	-	-	1,953	-
Total	**29**	**636**	**196**	**1,885**	**1,953**	**-**
	December 31, 2020					
Cash – local currency	48	123	504	194	-	-
Cash – other currencies	-	299	-	1,192	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Shares	-	-	-	-	-	-
Other collateral	-	254	-	-	1,893	-
Total	**48**	**676**	**504**	**1,386**	**1,893**	**-**

Credit derivatives exposures (CCR6)

Since 2019, the "Nostro" of Discount Bank includes also a credit derivative of the CLO class.
As of December 31, 2021, exposure of the Group in market value terms amounted to approx. NIS 1,157 million.
Investment is permitted only in the AAA and AA rating levels. A current process exists for the monitoring of operations and risk inherent in the product, with the assistance of a designated system for the analysis of CLO products.

Exposures to central counterparties (CCR8)

	EAD after CRM	RWA	EAD after CRM	RWA
	December 31, 2021		December 31, 2020	
	in NIS millions			
Exposure to qualified central counterparty (QCCP)	2,385	389	1,644	294
Exposure to QCCP transactions (excluding primary collateral and transfers to risk fund); of which:	807	333	541	247
OTC derivatives	-	-	-	-
Traded on the stock exchange derivatives transactions	807	333	541	247
Securities financing transactions	-	-	-	-
Setoff formation where setoff of products has been approved	-	-	-	-
Detached primary collateral	-	-	-	-
Undetached primary collateral	1,529	31	1,054	22
Financed transfers to a risk fund	49	25	49	25
Non-financed transfers to a risk fund	-	-	-	-
Exposure to unqualified central counterparty (total)	-	-	-	-
Exposure to QCCP transactions (excluding primary collateral and transfers to risk fund); of which:	-	-	-	-
OTC derivatives	-	-	-	-
Traded on the stock exchange derivatives transactions	-	-	-	-
Securities financing transactions	-	-	-	-
Setoff formation where setoff of products has been approved	-	-	-	-
Detached primary collateral	-	-	-	-
Undetached primary collateral	-	-	-	-
Financed transfers to a risk fund	-	-	-	-
Non-financed transfers to a risk fund	-	-	-	-

Market Risk

General qualitative disclosure regarding market risks (MRA)

Market risk is the risk of impairment in the value of the Group and its ability to attain its goals, as a result of changes in economic parameters in the financial markets and their fluctuations, which affect both its economic value and the regulatory capital ratio.

- **Interest risk.** The risk of impairment, as stated, as a result of parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.
- **Inflation and exchange rate risk.** The risk of impairment, as stated, as a result of the impact of changes in inflation rate or in exchange rates, including the effect of derivatives and future transactions on the difference between the assets and liabilities.
- **Share prices risk and credit margin in the holding of securities risk.** The risk of impairment, as stated, as a result of erosion in value of securities having a credit risk and in the value of non-financial assets, including funds, due to price fluctuations.

Market risks are presented in this review on a Group basis that includes the Bank, Mercantile Discount Bank, IDB Bank, ICC and the severance pay fund for the Bank's employees (hereafter in this section: "the Group"). Other Group companies do not have any material market risk.

Strategy and policy

The policy document for the management of market risks forms a framework for the management of market risks at the Bank and at the Group and defines responsibility and authority of the factors involved in the management processes of the market risks accepted by the Group.
Management of the risk is designed to minimize, to the extent possible, the realization of unexpected risks and damage originating in the uncontrolled acceptance of risk.
The policy and principles presented in the policy document are on a group basis, the subsidiary companies having individually adjusted the policy to their own managerial structure, local regulation and their business environment. The risks are being managed from an overall Group standpoint and in the format of a binding professional guideline.
The policy document defines the framework for the risk appetite as determined by the Board of Directors, as part of the understanding of the market risk profile of the Bank and of the Group and ensuring the existence of adequate capital compatible with this risk profile.

Principal changes in policy during 2021

In 2021, the effectiveness of the limits on market risks was tested at the Bank, at the Group and in the trading portfolio, from the aspects of the completeness of the range of exposures, the completeness of the coverage of vulnerabilities and the levels of exposure in effect in relation to the limitation and to their compatibility to the Bank's strategic plan. Respectively, several limitations have been updated while increasing the risk appetite, including in stress tests.
Means of supervision and policy realization. During the past year, in addition to reviewing market risks as part of the quarterly risks report, the Board of Directors has held several specific discussions relating to market risks, including:
- updating the policy documents in the sphere of market risks, including the risk appetite;
- reviewing the assumptions in the management of the risk;
- reviewing the stress tests.
- quarterly review of market risk management at the Group and explanations for the main changes that have occurred;
- review of derivatives activity at the Group.

These reports assist the Board of Directors in supervising the various market exposures and in corroborating that the Management's activity is consistent with Group policy and the risk appetite.

Risk appetite

The market risks appetite, as defined in the policy, reflects the willingness of the Bank and the Group subsidiaries to take market risks for the purpose of attaining their strategic goals. The guiding concept in managing the risk is that the balance sheet should be managed with the aim of maximizing the economic capital, taking a long-term view and taking the risk appetite into account, and subject to accounting considerations and considerations affecting the capital planning.
The policy defines the quantitative and qualitative limitations in relation to the characteristics of the market risks exposure at the Group companies and in the markets and instruments in which they are active through the banking portfolio and the trading portfolio.
The risk appetite is determined taking into consideration the two measurement approaches – accounting and economic, as well as the various management tools – sensitivity analyses at various strengths: normal business situation scenarios, high volatility scenarios in accordance with Basel 4 recommendations (IRRBB) and a variety of stress tests over various time spans.
Two groups of risk indices have been determined – principal risk indices, serving the first line in taking current or

periodic decisions regarding the scope of exposure and the remaining risk indices serving as an overall view of the market risk profile in different situations, including stress situations. Board of Directors limitations were set for all the principal indices. With respect to the remaining indices, Board of Directors limitations were set for a part thereof, while limitations and a minimum level for discussion, were set at a Division Head level for another part and additionally, some risk indices exist for which monitoring alone with no limitations is performed.
The Bank and the subsidiaries manage and monitor compliance with the limits for both the primary risk indices and also for the additional risk indices. Details regarding the scope of the exposures and the limits set will be presented below within the framework of the quantitative disclosure.

Structure and processes

Market risk management policy defines the organizational structure for risk management, which ensures a proper balance and non-dependence between the entities involved in the risk management. The three lines of defense that are defined in relation to the market risks ensure this balance, as follows:
First line of defense. The collective Group management of interest risk, and inflation and exchange rate risks are being conducted by means of Global Treasury at the Financial Markets Division. The Group investment risk management is conducted by the investments unit at the Financial Markets Division. The Group management refers to all market risk acceptors at the Group, the Bank, IDB Bank, MDB and all business activities: the asset and liability management, the investment activity and the trading activity at the Bank, at IDB Bank and at MDB. Within the framework of the first line of defense, measurement, control and operating units operate independently from the risk acceptors.
Second line of defense. The risk management function is an independent function whose role is complementary to the risk management activity conducted by the business lines. This function has the standing and authority to enable it to have an effect on decisions impacting the risk exposure, including involvement in the principal strategic processes having a material effect on the risk appetite, identification of the risks, mandatory professional guidance for the subsidiaries, policy updates and validation of the principal models used in risk management.
Third line of defense. The internal audit at the Bank and at the Group companies is responsible for providing an independent and unbiased assessment of the degree of effectiveness of the implementation of risk management processes at the Bank and at the Group companies, based on findings arising from the audits conducted in accordance with the work plan that is approved by the boards of directors of the Group companies.
The Internal Audit division is responsible for performing an array of independent audit assignments, initiated both by itself and by the Board of Directors, which pertain to all matters relating to the risk management processes and the quality of the risk management. The assignments of the third line of defense relate to all the core processes and its duties are based primarily on the provisions of Proper Conduct of Banking Business Directive No. 307.
Management supervision. Current management and supervision in the area of market risks management are performed, among others, by the following committees (over and above the activity of the Management as an organ):
- **Asset and liability management committee (ALM committee).** The committee is headed by the President & CEO and meets once a month. The role of the committee is to determine the Bank's assets and liabilities management policy, to determine exposure limits for market and liquidity risks based on a situation evaluation of expected developments in the market in accordance with market analyses and forecasts regarding economic developments in the market, interest rates in the various segments and expected changes in the CPI and in the exchange rate of the shekel. All this subject to limitations determined by the Board of Directors and in addition, the Committee examines the profitability of the various activities;
- **Group committee for assets and liabilities management (GALCO).** A committee headed by the President & CEO, which meets once in each quarter. The role of the Committee is to manage the market and liquidity risks of the Group in correlation with the risk appetite defined by the Board of Directors;

- **The financial forum** is an internal committee of the Financial Markets Division, headed by the head of the Division. The forum meets on a weekly basis for the purpose of evaluating current developments in the markets and monitoring the implementation of guidelines issued by the ALM committee. The forum is responsible for the current management of the Bank and the Group's linkage base and interest rate exposure, within the framework of the targets outlined by the assets and liabilities management committee.

Mechanisms that enable an immediate response to exceptional market developments

The Board of Directors has approved the plan for strengthening capital adequacy in times of crisis and the plan for dealing with a liquidity crisis. In this context, the manner in which such crises are to be identified and dealt with has been defined, as has the forum authorized to deal with the crises and the powers and tools have been defined, available to it in doing so. Inter alia, it is been defined that, where exceptional developments take place in the markets, a special financial forum, to be headed by the Head of the Financial Markets Division or by the Bank's President & CEO, depending upon the severity of the incident, will immediately be convened in order to discuss the market developments and the possible courses of action. The emergency plan also includes a contingency plan for fast reduction of the market risk and of credit risk assets.

Measurement and reporting

Measurement of exposure to market and liquidity risks, including the calculation of the principal risk assessments is and is performed by the first line of defense at the Bank on a weekly basis, using a designated system for market risk management.

The second line of defense measures exposure to market risks by means of additional risk indices, such as VAR, high fluctuation scenarios and stress tests through an independent computation made at weekly intervals for the Bank and at monthly intervals for the Group.

The risk management system is used as a data base for financial data, in which is collected the information regarding the range of financial instruments in which the Bank operates, including embedded options, for market data (such as indices, exchange rates and interest rates), including the fluctuations thereof and the statistical correlation between them. In addition, simulations are conducted by the system, regarding the overall operations at the Bank and Group levels, regarding operations/files. Likewise, additional risk indices and interest rate exposure are computed and measured in accordance with financial and behavioral models (it should be noted that the system is also used for fair value measurement for the purpose of the accounting report).

This system is also used by MDB in computing its exposure to market and liquidity risks.

IDB Bank. Measurement of the exposure to market and liquidity risks is performed by the first line of defense (Treasury) by means of a designated system for the management of market and liquidity risks. This system is an advanced system which increases the analysis capabilities and enables a monthly monitoring of the central risk assessing factors.

The measurement results are reported on a current basis within the framework of the relevant Management and Board of Directors committees.

Risk mitigation

Hedging of market risk policy. The Bank's policy and its banking subsidiaries as regards market risks management is based on the management of exposure to market risks, within the framework of quantity active limitations determined with respect to such exposures while defining the manner of operation and protecting it.

The means used for compliance with the determined limitations include:

- The purchase and sale of marketable instruments in all linkage segments (mainly securities for various periods);
- Investment in and raising of non-marketable financial instruments (mainly deposits by banks and large customers);
- Activity in derivative financial instruments with banks and large customers.

Quantitative disclosure

(1) Limitations set by the Board of Directors

Quantitative limitations have been defined both in the policy document at the Board's level and at the level of the head of the Financial Markets Division.

The central limitations defined by the Board of Directors are:

- Exposure of the economic value to a change of 100 base points (EVE);
- Exposure of economic value to scenarios of change in the graph structure and additional sensitivity analysis;
- Exposure of the accounting value to an intermediary scenario;
- Exposure of the economic and accounting value under stress tests;

In addition, limitations and thresholds have been defined with respect to risk assessments, EAR and VaR regarding the balance sheet as a whole, and with classification to the portfolio (banking and trading), and more.

(2) Interest Risk Exposure

General

The risk of loss, stemming from parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.

Distribution by exposure to changes in interest rates - consolidated

	December 31 2021												December 31 2020		
	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration
	In NIS millions										In %	In years		In %	In years
Financial assets[1]	215,141	14,952	15,132	25,363	21,824	20,346	8,074	2,091	424	323,347	2.57%	[3]1.39	280,613	2.35%	[3]1.40
Other amounts receivable[2]	67,029	76,557	71,613	42,157	15,577	17,863	1,452	1,220	-	293,468		[3]1.28	247,276		[3]1.32
Financial liabilities [1] [4]	153,183	19,477	34,299	35,370	23,417	33,680	1,651	4	-	301,081	0.46%	[3]1.46	261,624	0.35%	[3]1.43
Other amounts payable[2]	64,989	75,713	81,470	34,286	15,067	21,281	2,690	1,937	(501)	296,932		[3]1.41	251,139		[3]1.51
Exposure to changes in interest rates	**63,998**	**(3,681)**	**(29,024)**	**(2,136)**	**(1,083)**	**(16,752)**	**5,185**	**1,370**	**925**	**18,802**			**15,126**		
Additional details regarding exposure to changes in interest rate															
A. According to the substance of operation:															
Exposure in the banking book	61,923	(3,358)	(20,530)	(9,254)	(1,735)	(15,877)	4,969	1,340	925	18,403		[3]0.17	14,299		[3]0.16
Exposure in the trading portfolio	2,075	(323)	(8,494)	7,118	652	(875)	216	30	-	399		[3]0.03	827		[3]0.01
B. According to linkage bases:															
Non linked Israeli currency	47,022	(9,371)	(26,829)	(3,676)	1,423	(4,688)	2,954	1,029	647	8,511		[3]0.04	3,178		[3]0.05
CPI linked Israeli currency	(2,047)	104	753	2,962	2,179	(411)	1,244	273	10	5,067		[3]1.16	6,506		[3]1.60
Foreign currency (including Israeli currency linked to foreign currency)	19,023	5,586	(2,948)	(1,422)	(4,685)	(11,653)	987	68	268	5,224		[3]0.37	5,442		[3]0.32
C. Effects on the exposure to changes in interest rate:															
Effect of liabilities for employee rights	84	(10)	(296)	(295)	(200)	(1,073)	(963)	(382)	501	(2,634)	0.70%	[3]9.71	(2,891)	0.11%	[3]9.13
Effect of allocation to periods of on-call deposits	66,662	(3,152)	(3,012)	(13,278)	(15,704)	(28,176)	(912)	-	-	2,428	1.49%	[3]4.72	1,413	1.20%	[3]4.70
Effect of early repayments of housing loans	172	319	1,238	1,825	(494)	(539)	(2,280)	(365)	-	(124)	0.01%	[3]0.3%	(30)	0.11%	[3]0.2

Notes:

(1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments. Net of the effect of allocation to periods of on-call deposits.

(2) Amounts receivable/payable of derivative financial instruments off-balance sheet financial instruments net of the effect of liabilities for employee rights. Complex financial instruments are classified to periods based on the effective average period to maturity of each instrument, since it is not possible to reflect their interest exposure by classification to cash flow repayment periods or to the next interest rate renewal date.

(3) Weighted average by fair value of average effective duration.

(4) Not including liabilities in respect of leasing.

General notes:

(a) In this Table, the data by periods reflect the present value of future cash flows of each financial instrument (excluding nonfinancial items) and of other amounts receivable/payable, net of the effect of liabilities for employee rights and allocation to periods of on-call deposits, as explained in Note "C" below, capitalized using the interest rate discounting them to the fair value stated in respect of the financial instrument in Note 34 to the financial statements, consistently with the assumptions applied in the computation of the fair value of the financial instrument. For additional details regarding the assumptions used in computing the fair value of financial instruments, see Note 34 to the financial statements.

(b) The present value of cash flows stemming from on-call deposits is computed in accordance with assumptions regarding periods to maturity used by the Bank in the management of interest rate risk.

(c) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 34 to the condensed financial statements.

(d) The average effective duration of a group of financial instruments is an approximation of the change, in percentage, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.

(e) Additional details regarding exposure to changes in interest rate in each segment of financial assets and financial liabilities, in accordance with the different balance sheet items, are available upon request.

For explanation of material differences existing between the Bank's exposures, as reflected in the detailed disclosure by periods contained in the Risk Report, and the Bank's disclosure in the Board of Directors and Management Report, see "exposure to interest risk", in Chapter "C" of the Board of Directors and Management Report.

Relation between balance sheet items and the positions included in the disclosure of Market risk

The Group differentiates between two classes of portfolios: the trading portfolio and the banking book. These portfolios differ in the nature of exposure to market risks, reflected also in the management tools used in managing their market risks.

- The trading portfolio comprises of positions in financial instruments held for trading or with the aim of earning gains from it in the short-term. These positions are marketable and may be hedged in full. As a general rule, the trading portfolio is held by the dealing room and in trading bonds portfolios held, which is in the investment unit.
- The banking book – all balance sheet assets and liabilities and the off-balance sheet items of the Group that are not included in the trading portfolio.

The risk indices used for the overall interest risk management, are presented in detail in the item "Additional information regarding exposure to market risk" below.

The models used for the management of interest risk in the banking portfolio only, are presented in detail in the Chapter "Interest risk" (IRRBB) in the banking portfolio below.

Relation between balance sheet items and the positions included in the disclosure of market risk

Assets	Effect of 100 BP as of December 31, 2021	Effect of 100 BP as of December 31, 2020	Liabilities	Effect of 100 BP as of December 31, 2021	Effect of 100 BP as of December 31, 2020
	31.12.2021	31.12.2020		31.12.2021	31.12.2020
			In NIS millions		
Credit	2,778	2,343	Deposits	971	918
Available-for-sale securities portfolio	1,341	1,308	Debt notes	502	329
Trading securities portfolio	7	10	Off balance-sheet	137	301
Held-to-maturity securities portfolio	479	357	Current account spreading	2,090	2,108
Off balance-sheet	-	-	Employees rights	320	318
Other	32	42	Other	-	-
Total	4,637	4,059	Total	4,019	3,974

(3) Additional information – models and risk indices

Management of market risks is performed by several models and indices. Internal measurement takes into account factors additional to those that are used for disclosure purposes in the reports published for the public. The main indices in managing market risk have been defined by the Board of Directors. Since the models on which the risk indices are based are dependent on assumptions, the Bank has established a corporate governance structure and a framework for managing model risks, including challenging and validation processes.

The main indices used in managing market risks include indices of economic value sensitivity to changes in interest in various scenarios and an index of accounting value sensitivity in intermediate scenarios.

The additional indices and models include the Value at Risk (VaR), potential loss resulting from high fluctuations scenarios (IRRBB) in Stress Tests, an analysis of anticipated interest income - the NII (Net Interest Income) and in the Earnings at Risk (EaR). In addition, models are available for the management of exposure in the banking portfolio that express assumptions regarding customers' behavior in various scenarios, including a model for the distribution of credit balances of on-call deposits.

All the risk models and indices are regularly reviewed in an organized manner for definition purposes within the framework of cataloging the models and their validation or independent testing by risk management parties. These processes are carried out in accordance with the Bank's policy on the subject of model risk management, including the validation dates and the frequency thereof that are determined in accordance with the level of risk attributed to each model on a specific basis.

Principal indices for management

Index showing the sensitivity of the economic value to parallel changes in the interest graphs at 100 basis points. Examination of the sensitivity of the whole balance sheet of the Group to changes in interest rates, by means of the capitalization of future cash flows using transfer prices. Cash flows stemming from the Bank's assets and liabilities have been modified, in a way which expresses assumptions regarding timing in accordance with models assessing behavior of customers under different scenarios. The main disadvantage of the model stems from the fact that it presents a parallel scenario only of the change in the basic interest rate and does not include additional interest risk factors, such as non-parallel changes in the interest graphs, interest base risks and the risk on the cost of raising funds. The model and its assumptions are being documented within the framework of the work procedures of the Global Treasury unit, and it has been validated and approved for use.

Details of the Group exposure and limitations - in the index of economic value sensitivity to parallel changes in interest graphs by 100 base points (the EVE Model)

	For the year ended on:			
	December 31, 2021		December 31, 2020	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(617)	(742)	(85)	(636)
Limitation set by the Board of Directors	(1,520)		(1,184)	
The scenario in which the exposure was measured	UP 100	UP 100	UP 100	UP 100

The sensitivity of the accounting value index to changes in interest rates in intermediate scenarios. The intermediate scenario is one of the two principal indices relating to the management of the Bank's exposure to interest rates. The index represents the risk of erosion in the Group's capital ratio in a scenario that takes into consideration the effect of changes in a number of risk factors. In the course of 2021, a methodological update was applied in the intermediate scenario, which is based on a statistical system. Within the framework of the update, the evaluation of the risk to the accounting capital is based on the level of the current market fluctuations (ordinary business situation).

This index includes all risk factors that affect the accounting value, including: interest rate risks, credit spread risk relating to different assets included in investment portfolios, equities risk as well as additional risks stemming from bond and liquidity markets operations. The index is computed once a week.

Details of the Group exposure and limitations - reduction in accounting value in intermediary scenarios

	For the year ended on:			
	December 31, 2021		December 31, 2020	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(624)	(624)	(864)	(902)
Limitation set by the Board of Directors	(1,520)		(1,281)	

Indices and additional models

The Value at Risk (VaR). The VaR assesses the maximum loss that might be sustained as a result of the realization of market risks in a given period of time and at a statistically defined level of safety. The results of the model allow the assessment of the Bank's overall exposure to market risks and the examination of developments in market risks over a period of time.

Three methods for the calculation of the VaR exist:

- The parametric method – makes use of the difference and correlation matrix between the different risk factor and is derived from historical data as regards the risk factors. This method assumes that the risk factors are distributed normally;
- The historical method - assesses the fluctuations in risk factors on the basis of past experience. This method does not include assumptions as to the distribution of the different risk factors or as to the correlation between them;
- The Monte Carlo method – a non-parametric method which allows an accurate VaR calculation also for non-linear instruments, such as options. The method is based on forming a joint distribution for risk factors on the basis of past data and a random sample of a large number of observations of the same distribution.

The Bank uses the historical method for estimating the VaR in order to examine the quality of the model and its validity, the actual loss is examined. A deviation is created where the actual loss is higher than the value at risk.

The usefulness of the model and of the determined limitations – the VaR model is used today for the examination of market risk on the activity of the whole balance sheet and on the trading portfolio, as set forth below, as required by Proper Conduct of Banking Business Directive No. 339.

The VaR on the whole balance sheet. The VaR on the whole portfolio (both the banking and trading portfolios) is calculated using the historical method at weekly and monthly intervals for the Bank and for the Group, respectively, with a confidence level of 99% and a time horizon of one month. The Board of Directors have set an internal warning threshold limit in the model (warning thresholds are intended to alert the decision-makers to a high/exceptional risk level but, in contrast to the limits, when these are exceeded – although a discussion is required – the exposure does not need to be changed). Accordingly, the Group's VaR is not to exceed 3% of the equity. In 2021, this limit was not exceeded.

This risk estimate serves as one of the risk estimates that support the Group's overall market risk perspective.

The VaR of trading operations. The VaR for the trading activity is calculated at daily intervals using the historical (hybrid) method, using a confidence level of 99% and a time horizon of one day.

The Board of Directors has set specific limits for the VaR on trading activity. No exceptions to the limits were recorded in 2021.

This estimate serves as one of the main tools in the management of the trading activity.

Details of the exposure in terms of - VaR in trading activity

	Fourth quarter		End of year	
	2021		2020	
	End of quarter	Maximum exposure during the year	End of reporting year	Maximum exposure during the year
	in NIS millions			
Actual exposure	10.7	16.3	5.4	7
Limitation set by the Board of Directors	30	-	30	-

Note:
The VaR was calculated for 1 business day and in probability of 99%.

The result of BackTesting performed on the results of the Bank's model indicate that the model corresponds with the statistical requirements and that it is valid.

Loss analysis in extreme scenarios (Stress Tests). Stress tests alert Management to exposure to events, in which acute changes occur with respect to a number of risk factors, and comprise an important tool in the market risk management process, which assists in the identification of weak-points, in a way that would not have been reflected in full in other risk indices. As part of the risk management process, exposure of the Group to different stress events is being evaluated.

The stress tests are based on historical events as well as on narratives and on regulatory definitions. Measurement of the exposure is performed using an economic approach and using an accounting approach. These approaches are used both for the purpose of ongoing management, and also for the purpose of evaluating the capital adequacy within the framework of the ICAAP. In addition, the Bank computes the result of the uniform stress test, as determined by the Supervisor of Banks for the whole of the banking industry.

- The economic approach – an approach that expresses the effect of changes in market factors on the present value of all the assets and liabilities that reflect the economic value;
- The accounting approach – under this approach, an examination is performed of both the immediate effect (for a term of up to a month) and also of the long-term effect (for a term of up to a year) on the Common Equity Tier 1, as a result of changes in market risk factors. These effects are calculated on all the positions that affect the capital ratio, including off-balance-sheet positions and the trading portfolios. In addition, for the purpose of calculating the long-term effect, the changes in respect to the stress test on interest income are also included.

Stress tests that include changes in interest rate curves (parallel and not parallel), while breaking principal behavioral assumptions, changes in major currency exchange rates, changes in principal share indices and in the CPI and changes in the spreads of investments in corporate bonds.

Following are the Group's main stress scenarios implemented:

- Stress tests as defined by the Bank of Israel (from the year 2016 and the year 2018);
- Internal scenario based upon a narrative modified to the vulnerable points of the Group;
- Historical scenario "Corona crisis";
- Stressed VaR.

In addition, several stress tests are conducted with respect to interest risk, as required by Proper Conduct of Banking Business Directive No. 333.

The market stress tests are determined in accordance with regulatory requirements and in accordance with the Basel IRRBB recommendations.

The limits set by the Board of Directors relate to both the erosion in the economic value in stress tests and also to the effect on the capital adequacy ratios. In 2021, no exceptions to the limits were recorded.

Analysis of the anticipated interest income the NII (Net Interest Income) and the EaR (Earning at Risk) model. The net interest income (NII) forecast is carried out with the aid of a dynamic simulation of development of the balance sheet and the net interest income for the next quarter and for the next year. The simulation is intended to test the effects of the various assets and liabilities management strategies on the Bank's future interest income. The forecast serves as an important part of the work plans, and is based on many assumptions.

The EaR index measures the sensitivity of the financing income forecast (NII) to the changes in interest rates.

This is a secondary index within the framework of the risk management processes in the Group, and no limitations have been set in respect thereof by the Board of Directors though a threshold for discussion has been determined. This, mostly, in view of the fact that the ability to control and manage it is limited. Within the measurement framework of the long-term stress tests, the financing income forecast is integrated under the assumptions contained in the narrative of the scenario.

(4) Inflation and exchange rate exposure

Risk of loss as a result of the effects of changes in inflation or foreign exchange rates, including the effect of derivatives and forward contracts on the margin between the assets and the liabilities.
The Bank's Exposures to inflation and foreign currency exchange rates is performed from an economic perspective, taking into account the exposure's implications on accounting fluctuations where the accounting and the economic perspectives do not align. The measurement of the risk is performed through calculating the surplus/shortfall of assets to liabilities after including economic revisions.
The actual management of the exposures is conducted on a daily frequency on the basis of economic positions in the various linkage and currencies segments, which differ from the accounting positions which may be seen in Note 32 to the financial statements. The principal change stems from the transfer of linkage segments of pension liabilities in respect of payroll and additional employee rights (from the shekel accounting-measurement segment to the economic-measurement linked segment).
Other changes are: the non-inclusion of losses or gains resulting from changes in the market value of foreign currency or index-linked bonds; the addition of foreign currency fixed assets as financial assets; the transfer of non-performing impaired foreign currency debts to the shekel-linked segment; and the addition of exposure to foreign currency in the severance pay fund for Bank employees (BLD) (only the difference between the severance pay provision and the value of the deposits with the fund is recorded in the accounting positions). The hedge relating to the structural position in foreign currency stemming from the investment in IDB Bank has been removed in order to reduce the sensitivity of the capital ratio to changes in exchange rates.
The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.
The exposure is measured separately for each material currency.

Actual distribution of investment of the equity in relation to the set limitations (the data is stated in relation to the equity)

		Fourth quarter of 2021				End of 2020		
			Position range					
Segment	Limitation	Year end	From	To	Average	from	to	average
CPI linked*	50%-(50%)	10.9%	1.7%	16.9%	9.8%	6.1%	2.7%	6.1%
Foreign currency	15% - 30%	18.0%	17.1%	19.1%	18.0%	19.2%	21.1%	19.2%

Note:
* Timing of position computation: the managed position is computed on the basis of the capital data as of the end of the previous quarter together with changes occurring during the last quarter until date of the computation. These changes are based on data that is not final as it is known at date of computation. On the other hand, the position in the linkage balance sheet is computed on the basis of audited data used in the framework of the financial statements.

The Group's underlying exposures presented in the above Table is based upon a monthly average. Notwithstanding, exposure management in each material subsidiary is conducted in an effective manner and at least once a week.

(5) Management of positions in the trading portfolio

Trading portfolios. The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" in government bonds in foreign currency and in derivatives. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while creating exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.
As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.
The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of

activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.

Activity in derivative financial instruments. The Bank is active in a wide range of derivative financial instruments both in shekels and in foreign currency and acts also as a "market maker" for some of which. A substantial part of the transactions are made "over the counter" (OTC) in accordance with customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.

The market exposures, which are created as a result of activity in derivative financial instruments, both for inflation and foreign currency exchange rates and also for interest, are included within the framework of the Board of Directors' various limits. The counterparty exposures are managed under agreements for the transfer and set-off of collateral and vis-à-vis central clearing houses.

In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers of or its own account), a scope restriction has also been set, intended to limit the operational risk involved in transactions made in such instrument. The volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.

The total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by control functions of the first line of defense.

No deviations from limitations set by the Board of Directors were recorded in 2021.

The Bank's transactions in derivative financial instruments are made partly with banking institutions or with Tel-Aviv Stock Exchange members, who are subject to capital adequacy requirements or compliance with the level of security required by the Tel-Aviv Stock Exchange, and partly with other Bank's customers, who provide security in accordance with the Bank's procedures.

Activity in the Ma'of market. The Bank operates in the Ma'of share index market only on behalf of customers, while maintaining the security level required by the Tel-Aviv Stock Exchange. The Bank operates in options on the dollar exchange rates in the Ma'of market both on customers' behalf and on behalf of the Bank itself.

Accounting data as to the volume of operation in derivative financial instruments of the Bank and its consolidated subsidiaries

	December 31, 2021	December 31, 2020
	in NIS millions	
Not for trading derivatives	52,708	34,809
Of which: hedging derivatives	4,876	4,123
Trading derivatives	294,872	268,715
Total	**347,580**	**303,524**

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof, type of derivative financial transactions and instruments in accordance with the directives of the Supervisor of Banks, is stated in Notes 1 D 6 and 28 to the financial statements.

According to the said directives of the Supervisor of Banks, most of the transactions in derivative financial instruments made by the Bank for managing market risks resulting from its financial base assets (ALM) are classified as "ALM transactions" and not as "hedging transactions". In terms of the said directives more stringent criteria have to be complied with so that transactions in derivative financial instruments could be considered as "hedging transactions".

The majority of base assets, the exposure of which to market risk, as stated, was managed by derivative financial instruments, are not marketable. Income and expenses generated by such assets are recognized on the accrual basis to the statements of profit and loss while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value". Accordingly, no correlation exists between the recording of the base assets and the results they produce in accordance with generally accepted accounting principles and the transactions in derivative financial instruments in respect of those base assets, which are classified as "ALM transactions".

Details of financing income from derivative financial instruments are presented in Note 3 to the financial statements.

Option risks. Option risks relate to the loss that might be incurred as a result of changes in base assets and the volatility thereof, which affect the value of such options, including standard deviations. The Bank is active in a variety of types of options– regular options and "exotic" options of certain types as well as on a variety of base assets (foreign currency and interest rates).

The Bank's Board of directors has determined limitations regarding permitted option activity, both as regards overall volume and in terms of the maximum impairment in value under stress tests and in cases of moderate scenarios. The scenarios relate to simultaneous changes in exchange rates, indices and in the volatility of base assets. The Division Head document also determined limitations on maximum changes in the value of the option portfolio in terms of sensitivity indices ("GREEKS").

No deviations from limitations set by the Board of Directors were recorded in 2021.

Market risk according to the standardized approach (MR1)

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standardized approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. The allotment to market risks includes:

- Interest and shares risks resulting from instruments in the trading portfolio. The interest risk is computed by the "periods to maturity" method;
- Foreign exchange risk of the banking corporation as a whole (eliminating a structural position in respect of IDB Bank in accordance with the approval of the Supervisor of Banks).

In addition, in respect of each of the above mentioned risks, an optional component shall be added, in accordance with the "delta plus" method of the instruments included.

Details of capital allocation to market risks according to the standard approach

	Capital allocation as of	
	December 31, 2021	September 30, 2021
	In NIS millions	
Interest rate risk*	409	422
Foreign exchange rate risk	14	13
Share risk	-	-
Option risk	7	5
Total for the Banking Group	**43**	**441**
Allocation in risk asset terms	**3,738**	**3,836**

* Including the specific risk in the amount of NIS 2.6 million and NIS 2.3 million in December 2021 and September 2021, respectively.

The allocation to market risks in risk asset terms comprises 1.74% of the total risk assets as of December 31, 2021, compared with 1.73% as of December 31, 2020.

The Bank has reduced the allocation of capital by means of improving the trading portfolio and reducing the volume of open transactions.

Interest rate risk in the banking book (IRRBB)

General. The Bank manages the market risks from an overall perspective, while differentiating between the trading portfolio exposures and the banking portfolio exposures. Accordingly, this Section below should be read together with the above qualitative disclosure in the matter of market risk. Furthermore, within the framework of the market risk Section, a quantitative disclosure is presented regarding the overall interest risk, without differentiating between the interest risk in the banking portfolio and the interest risk in the trading portfolio. Accordingly, the quantitative information regarding interest risk presented therein should also be reviewed.

The characteristics of interest rate risk with respect to the banking book

The banking book contains most of the interest rate risks of the Group and which includes the Bank's activity in credit transactions, in the purchase of securities and in attracting deposits and the issuance of capital notes. Such activity is affected by strategic considerations and by a long-term view of the Bank's interest rate risk propensity.

Effect of parallel changes of 100 base points in the interest rate applying to the banking book

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			December 31, 2021		
An increase of 100BP in interest rates	(619)	(65)	25	47	(612)
A decrease of 100BP in interest rates	638	108	(265)	(55)	427
			December 31, 2020		
An increase of 100BP in interest rates	(217)	(167)	300	9	(76)
A decrease of 100BP in interest rates	277	148	(360)	(17)	49

Behavioral economic models integrated in risk management

Behavioral models express the assumptions regarding the conduct of customers under different scenarios. Any change in the calculation methodology is brought for approval of the Management committee following approval by the CRO.

Behavioral assumptions applied in the assessment of Interest Risks

Credit balances not having a settlement date spread model. For the purpose of calculating exposure to interest rate risk, the Bank assumes that a significant proportion of the credit balances of on-call deposits are not subject to immediate withdrawal. With this relying on, inter alia, a lengthy examination of customer habits over time. The model assumes a stable amount over time ("the stable portion").

Accordingly, when calculating the Bank's exposure to interest risk, the stable portion is treated as a long-term liability spread over the same period. The model is applied to credit balances with no maturity date of the Bank, of MDB and of IDB Bank, in accordance with examining the conduct characteristics of the customers of each of these banks separately.

This model is also used for all the deposits not having a settlement date in respect to IDB Bank, as is the practice at U.S. banks.

Models for quantifying early repayment of assets risk (Prepayment Risk). The Group operates several models forecasting early repayments in the asset portfolio. In the course of the first quarter of 2021, the Bank updated the model predicting early repayments changing into a statistical model. MDB manages the early repayment risk applying to mortgages using the model based on historical data of early repayment of mortgages. IDB Bank makes use of models accepted in the U.S. for the assessment of early repayment rates in the mortgage backed asset portfolio held by it.

Models for the premature withdrawal of deposits. Similar to premature repayment of assets, the Group in Israel operates a model based on historical data regarding the behavior of customers as regards savings plans and deposits that include optional premature withdrawal dates. By means of this model, the Bank assesses the expected cash flow in respect of such liabilities, which is different from their contractual cash flow.

Quantitative information regarding interest risk in the banking book and the trading book

Adjusted fair value of financial instruments - consolidated

	December 31 2021						December 31 2020					
	Israeli currency		Foreign currency[3]				Israeli currency		Foreign currency[3]			
	Non linked	CPI linked	US dollar	Euro	Other	Total	Non linked	CPI linked	US dollar	Euro	Other	Total
	In NIS millions											
Financial assets[2]	238,320	24,258	56,441	3,444	884	323,347	206,284	20,942	48,323	4,370	694	280,613
Other amounts receivable in respect of derivative, hybrid and off-balance sheet financial instruments	120,043	7,285	137,465	20,784	7,891	293,468	92,956	5,644	118,349	19,440	10,887	247,276
Financial liabilities[2]	208,780	14,941	72,200	5,945	1,643	303,509	184,583	10,521	60,564	5,651	1,718	263,037
Other amounts payable in respect of derivative, hybrid and off-balance sheet financial instruments.	139,446	11,535	118,144	17,998	7,175	294,298	109,333	9,559	101,881	18,029	9,446	248,248
Net fair value of financial instruments	**10,137**	**5,067**	**3,562**	**285**	**(43)**	**19,008**	**5,324**	**6,506**	**4,227**	**130**	**417**	**16,604**
Effect of liabilities for employee rights	(2,606)	-	(28)	-	-	(2,634)	(2,858)	-	(33)	-	-	(2,891)
Effect of allocation to periods of on-call deposits	980	-	1,448	-	-	2,428	712	-	701	-	-	1,413
Net adjusted fair value[1]	**8,511**	**5,067**	**4,982**	**285**	**(43)**	**18,802**	**3,178**	**6,506**	**4,895**	**130**	**417**	**15,126**
Of which: the banking book	8,382	4,950	4,130	678	263	18,403	2,517	6,192	4,987	116	487	14,299

Notes:

(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.

(2) Excluding balance-sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of hybrid financial instruments.

(3) Including Israeli currency linked to foreign currency.

Effect of scenarios of changes in interest rates on the adjusted net fair value - consolidated

	December 31 2021						December 31 2020					
	Israeli currency		Foreign currency[4]				Israeli currency		Foreign currency[4]			
	Non linked	CPI linked	US dollar	Euro	Other	Total[5]	Non linked	CPI linked	US dollar	Euro	Other	Total[5]
	In NIS millions											
Parallel changes												
A parallel increase of 1%	(84)	(382)	65	37	-	(364)	276	(383)	345	8	1	247
Of which: the banking book	(70)	(379)	70	34	2	(343)	232	(359)	340	5	2	220
A parallel decrease of 1%	77	391	(307)	(42)	-	119	(202)	431	(375)	(16)	-	(162)
Of which: the banking book	66	384	(313)	(39)	(2)	96	(157)	405	(371)	(11)	(2)	(136)
Non-parallel changes												
Curving[2]	(335)	(155)	6	17	-	(467)	(267)	(120)	32	5	1	(349)
Of which: the banking book	(353)	(145)	12	13	(1)	(474)	(255)	(118)	37	(2)	-	(338)
Flattening[3]	300	69	(20)	(11)	(1)	337	330	43	(1)	(5)	(1)	366
Of which: the banking book	319	59	(23)	(6)	1	350	308	46	(6)	3	-	351
Interest rise in the short-term	253	(79)	11	5	(1)	189	405	(123)	131	(2)	(1)	410
Of which: the banking book	276	(86)	10	8	1	209	367	(110)	125	4	2	388
Interest decline in the short-term	(276)	74	(159)	(9)	1	(369)	(415)	123	(222)	(3)	1	(516)
Of which: the banking book	(300)	81	(158)	(12)	(1)	(390)	(377)	110	(216)	(8)	(1)	(492)

Notes:
(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.
(2) Curving – decline in interest in the short-term and increase in interest in the long-term.
(3) Flattening – increase in interest in the short-term and decline in interest in the long-term.
(4) Including Israeli currency linked to foreign currency.
(5) After offsetting effects.

Effect of scenarios of changes in interest rates on net interest income and on non-interest financing income

	December 31 2021			December 31 2020		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	1,216	(72)	1,144	1,000	48	1,048
Of which: the banking book	1,202	(64)	1,138	989	55	1,044
A parallel decrease of 1%	(1,404)	76	(1,328)	(1,174)	(51)	(1,225)
Of which: the banking book	(1,390)	67	(1,323)	(1,164)	(58)	(1,222)

Shares Risk

Strategy and processes

Within the framework of the policy for the diversification of investments, the Bank acts in two principal areas:

- Private equity funds, venture capital funds and a fund of hedge funds;
- Direct investments in companies considered as non-financial investments.

For details as to the investment policy and the entities in which the Bank invests, see "Investments in Non-Financial Companies" under "Activity of the group according to regulatory segments of operation – additional details" in the 2019 annual report.

Details regarding investments in shares

	December 31	
	2021	2020
	In NIS millions	
Investments in shares of associates[1]:		
Non marketable shares	462	348
Shares in the available-for-sale portfolio:		
Marketable shares	283	92
Non marketable shares	1,330	1,000
Total shares in the available for sale portfolio	**1,613**	**1,092**
Total investment in shares	**2,075**	**1,440**

Footnote:

(1) For additional information, see Note 15 to the Financial Statements.

Capital requirement regarding share position

	December 31	
	2021	2020
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds[2]	230	211
In respect of investments in other shares[3]	135	80
Total capital requirement regarding share position[1]	**365**	**291**

Footnotes:

(1) The capital requirement was computed according to 11.5% and does not include capital requirement in respect of investment in shares in the trading portfolio.

(2) These investments are weighted at risk weight of 150%.

(3) These investments are weighted at risk weight of 100% and 250%.

Liquidity risks

Liquidity risk is the risk to the stability of the Group stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result thereof the Group would be compelled to raise funds and/or realize assets in a way that would result in a material loss. The Bank has determined a maximum exposure limitation to the liquidity risk.

New directives

Proper Conduct of Banking Business Directive no. 222 in the matter of "stable funding ratio". Following conclusions drawn from the global financial crisis, the Basel Committee published central reforms for the improvement of the stability of the banking sector. Among these reforms, the Net Stable Funding Ratio – NSFR was published in October 2014. The Supervisor of Banks published the Directive adopting the recommendations of the Basel Committee in the matter of Net Stable Funding Ratio in the banking system in Israel. In accordance with the directive, the objective of a Net Stable Funding Ratio is to improve the resilience of the liquidity risk profile of banking corporations in the long term by means of requiring the banking corporations to maintain a stable funding profile in accordance with the composition of their balance sheet assets and their off-balance sheet activities. The Net Stable Funding Ratio consists of two components: available stable funding items (the numerator) and required stable funding items (the denominator). "Available stable funding" is defined as that part of the capital and liabilities that can be relied upon over the time horizon taken into account in the Net Stable Funding Ratio, which lasts for one year. The Required amount of stable funding of a particular corporation is a function of the liquidity characteristics and the residual maturities of the various assets held by that corporation, as well as of its off-balance sheet exposures.

In accordance with the directive, the required minimum Net Stable Funding Ratio stands at 100%.

Preparations by the Bank. The Bank had prepared for the application of Proper Conduct of Banking Business Directive No. 222, which has already been applied in this Report. Furthermore, the Bank is preparing for the application of Proper Conduct of Banking Business Directive No. 336.

The liquidity coverage ratio – principal disclosures table (LIQ1)

	For the period of three months ended			
	December 31, 2021		December 31, 2020	
	In NIS millions			
	Total non-weighted value (average)	Total weighted value (average)	Total non-weighted value (average)	Total weighted value (average)
Total high quality liquid assets				
Total high quality liquid assets (HQLA)		67,627		64,815
Cash outflows				
Retail deposits from individuals and small businesses, of which:	142,470	10,132	139,490	9,374
Stable deposits	50,859	2,508	46,400	2,283
Less stable deposits	66,926	6,883	58,999	6,068
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	24,685	741	34,091	1,022
Unsecured wholesale financing, of which:	97,818	57,499	78,390	46,315
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	1	1	-	-
Deposits not for operational purposes (all counterparties)	96,421	57,441	76,403	46,152
Unsecured debts	1,395	58	1,986	162
Secured wholesale financing	-	77	-	1
Additional liquidity requirements, of which:	83,120	19,186	77,433	18,814
Cash outflows in respect of exposure to derivatives and other collateral requirements	12,438	11,524	11,277	10,384
Cash outflows in respect of loss of financing of debt products	-	-	-	-
Credit and liquidity facilities	70,682	7,662	66,156	8,430
Other contractual financing commitments	30,889	822	25,598	823
Other conditional financing commitments	2,659	91	2,451	86
Total cash outflows		**87,808**		**75,411**
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	1,422	1,422	577	577
Cash inflows from regularly performing exposure	23,567	19,489	24,002	20,201
Other cash inflows	13,696	11,939	13,153	10,697
Total cash inflows	**38,685**	**32,850**	**37,732**	**31,475**
		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		**67,627**		**64,815**
Total net cash outflows		**54,958**		**43,936**
Liquidity Coverage Ratio		123.1%		147.5%

Liquidity risk – qualitative disclosure and additional disclosures in respect to the liquidity coverage ratio (LIQA)

Policy

The Bank manages the liquidity risk in accordance with the policy document, which is updated and approved by the Board of Directors in each year, and expresses the guidelines of the Regulator and accepted principles in this field. The policy includes reference to a number of stress tests, the structure of the resources of funds, the liquidity cushion and the fixing of limits regarding the various risk assessments. The policy includes in addition the Bank's plan for dealing with a liquidity crisis (CFP), including defining an array of indicators used for the identification of liquidity risk trends.

Limitations on the exposure to liquidity risks. The limitations determined by the Board of Directors in the policy document, refer to a number of risk assessments as well as to the structure of assets and liabilities. No deviations were recorded in 2021 from the limitations determined by the Board of Directors.

Structure and processes

The Internal control mechanisms for avoidance of deviation from policy:

- A Liquidity Forum convenes at least once a week, discusses the liquidity situation of the Group and ensures the implementation of the financing strategy under the limits on liquidity risk management;
- A financial forum that meets on a weekly basis and reviews the liquidity situation and developments regarding risk assessments in respect of liquidity at the Bank and at the Group;

Asset and liability management committee (ALM committee). In the framework of the committee, the situation of the liquidity risk at the Bank and at the Group has been reviewed. See above "Management of market risks".

The Group asset and liability management committee (GALCO) meets once in each quarter. The committee monitors the implementation of the Group finance strategy.

Manner of managing the liquidity risk at the Bank and at the Group

The Board of Directors bears the supreme responsibility for outlining the manner of the liquidity risk management at the Discount Group. In this framework the Board is responsible, among other things, for determining a liquidity risk management policy, determining the risk appetite and approving the limitations on the exposure, the annual updating of the policy document, and supervision over the Management's activities in order to ensure that the risks profile is in line with the determined risk appetite, and approval and monitoring of the application in practice of the financing plan within the framework of the work plan. In the course of updating the policy document in 2021, restrictions set by the Bank's Board of Directors were updated, inter alia, complying with the requirements of Proper Conduct of Banking Business Directive No. 222 regarding Net Stable Funding Ratio, and Proper Conduct of Banking Business Directive No. 336 regarding management of pledged assets. Included in the above, the list of indicators for identification of a developing liquidity crisis had also been updated.

Management bears responsibility for the implementation of the policy and the management and supervision thereof. Responsibility for these duties is realized by means of maintenance of supervision and control mechanisms and the establishment of work processes and procedures in each of the Group companies exposed to liquidity risks. Management holds annual discussions regarding the Group finance plan, where decisions are made with respect to the scope, composition, characteristics and distribution of resources given the business plan.

During the course of the year, the Management holds regular discussions, within the framework of the monthly ALM Committee meetings, regarding developments in the liquidity position of the Bank and the Group, as measured by the

various models, including the LCR (liquidity coverage ratio). The elements leading to changes in the level of liquidity at the Bank and the principal subsidiaries are analyzed at these discussions.
The first line of defense, headed by the Head of the Financial Markets Division, through the Global Treasury Unit, manages the liquidity risk at the Bank by means of an internal model that includes a variety of scenarios at different stress levels, the liquidity coverage ratio, as well as by monitoring the forecasted liquidity gaps in shekels and foreign currency assuming the materialization of the work plan. Also and monitors developments in the composition of the liabilities broken down according to the type of depositors and the periods to maturity, including the NFSR (Net Stable Funding Ratio) is measured. This measure reflects the long-term liquidity risk by computing the ratio between the stable resources and the fixed applications.
The second line of defense, the Risk Management Division identifies trends relating to liquidity risk, by means of indicator reports ("KRI's").
The measurement of the liquidity risk, by means of the internal liquidity model and the liquidity coverage ratio, includes independent controls, by the control function at the first line of defense and a reasonableness examination from time to time by the second line of defense. The second line of defense, the Risk Management Division, challenges the methodology and the liquidity risk management processes at the Bank and at the Group, including the different decision making procedures regarding liquidity ratios and the internal models of the Group and of the different Group companies.
The Global Treasury Unit convenes a weekly Group liquidity forum at which reports are received from the subsidiaries in relation to their internal model results and their liquidity coverage ratio. The internal models for measuring the liquidity risk at the subsidiaries are subject to the mandatory professional guidance of the Bank's Global Treasury Unit and of its Risk Management Division.

Measurement and reporting systems

The current assessment of the liquidity risk provides decision makers with indications for the identification of situations in which the liquidity risk rises, which enables the maintenance of a proper liquidity level, and is conducted, as stated, using the designated system for market risk management.
Risks are being identified and assessed on a current basis, at the Group level and at the level of each Group company, the operations of which involve liquidity risk.
The identification of trends in the liquidity situation is conducted through a monitoring process for indices and additional tools, as well as the current examination of the key risk indicators (KRI's).

The annual financing plan

The financing plan document for 2022 has made an in-depth survey of the components of the 2021 financing plan, as well as a comparative cross-analysis of the operations of the banks operating in the sector, of the level of competition, and of the structure of resources of Discount Bank vis-à-vis the system. The plan does indeed focus on the current working year, but at the same time takes also into account the medium and long-term spun with a view of serving a consistent and coherent financing policy.
The financing plan takes into account and widely discusses a large number of variables:
- The present liquidity situation of the Bank;
- The credit growth goals of the Group;
- The liquidity situation of competitors, financing challenges in the sector and the anticipated level of competition;
- Different trends in the banking sector from the aspect of classes of customers, price level and trends in the financing profile of competitors from the aspect of their products (deposits/debt), average period to maturity (short/long) and more;
- The market share of the Bank;
- Opportunities and possible risks.

The financing plan refers to the whole Group and states detailed financing goals for each of the material Group companies.

Retail financing sources are defined as a strategic asset of the Group and wholesale financing sources are marked as a growth potential.

The Group financing goals alongside possible deviations there from and alternative course of action are discussed on a monthly basis by the ALM Committee, and with respect to Group aspects, at least once in each quarter as part of the discussion of the Group's ALM (Galco).

Contingency Funding plan

Principle 11 of the Basel principles document of 2008, states that a banking corporation shall have a formal Contingency Funding Plan (CFP) in case of emergency, which clearly states the strategies for the treatment of liquidity shortage in extreme situations. The plan shall outline a policy for the management of a variety of scenarios, shall determine clear lines of responsibility, and shall include reporting procedures, including reports in the event a deteriorating situation. The Plan is to be examined and updated on a regular basis in order to ensure its operational validity.

From the viewpoint of the instruction, the realization of the liquidity risk occurs in the event that a banking corporation is compelled to raise funds at high prices or to sell assets at a loss in order to honor its obligations.

Establishing an orderly process of dealing with possible crisis situations, increases the level of awareness and readiness of the various functions in the organization, thus stressing its importance and contribution to the mitigation of risk of crisis situations, and to the proper management thereof, when these breakout. The Bank's Management exercises from time to time the Contingency plan drawing the necessary conclusions.

The Bank's CFP presents clearly the various practical actions that have to be taken in time of emergency. The plan describes the processes and functions that are responsible for the identification of a crisis situation, for managing the crisis, including determining the areas of responsibility and authority, reporting processes and their frequency, Group management and coordination, declaring the return to "business as usual" situation, the existence of proper processes for the drawing of conclusions. In addition, the plan presents at each stage different action possibilities requiring extensive discretion while examining the implication.

The plan for the management of a liquidity crisis comprises a set of default options and focuses, which the organization will put into operation upon the development of a liquidity crisis. Notwithstanding the above, it does not form an alternative to real-time decision making and discretion at the various management levels of the Bank, which are crucial in an unexpected and volatile crisis situation such as the liquidity crisis.

The central focal points of the plan are:

- Identification and declaration of a liquidity crisis;
- Actions for the improvement of the liquidity level;
- Measurement and monitoring of the liquidity level;
- Information;
- Group management.

The plan distinguishes between a variety of liquidity crises, including a system crisis, a specific crisis, and a combined crisis at different levels of intensity in each type of crisis. Furthermore, the plan refers also to a situation defined as a pre-crisis situation, where the specific/system liquidity risk has increased prior to the declaration of the event as a crisis situation, and to the transition between different stress levels or transition between different types of crises. Moreover, the plan provides a response for a liquidity crisis being realized in a subsidiary company at the Group and the risk of its effect on other subsidiaries or on the Group as a whole.

The detailed plan relates to the Bank, which manages the Group's liquidity. The material subsidiaries approve an action plan at the company level with a methodology similar to that of the Bank.

The plan is being examined and approved on an annual basis, within the framework of approval of the policy document regarding the liquidity risk management.

Management of the potential liquidity needs

As of December 31, 2021, the total liquidity requirements for a period of one month according to the LCR Model, amounts at the Group level to NIS 56.8 billion. The group liquidity buffer at the end of the fourth quarter of 2021, amounted to NIS 72.4 billion, and the group liquidity surplus amounted to NIS 15.6 billion. The group liquidity buffer includes mostly, deposits with the Bank of Israel, Israel Government bonds denominated in shekels and MBS backed by U.S. government or semi-governmental agencies. The surplus liquidity is available to the Group for the carrying out of its planned business plan. The liquidity surplus is distributed among the Group companies in a manner that serves the potential liquidity needs of each company separately.
The liquidity requirements of each of the companies in the Group have been defined within the framework of the Group financing plan, including existing cash surplus, the raising of resources and the planned applications, and in the case of need, the ability to rely on the transfer of liquidity among the Group companies. Monitoring the performance of the finance strategy, possible deviations there from and ways of dealing with such deviations (to the extent that these arise) are discussed on a monthly basis by the ALM committee and at least once in every quarter the Group aspects are discussed by the Group's ALM committee (GALCO).

Liquidity coverage ratio – Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio"

The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", which adopts the principles determined by the Basel Committee with a number of singular modifications.
The Directive states the manner of computing the liquidity coverage ratio, including definition of the characteristics and operational requirements for the "high quality liquid assets" (the numerator) and collateral coefficients in respect thereof as well as the net cash outflow anticipated in the stress test as defined in the Directive for the thirty calendar days (the denominator). According to the provisions of the Directive, banks are required to maintain a minimum ratio of 100%.
Proper Conduct of Banking Business Directive No. 342 in the matter of "liquidity risk management" remains in effect alongside Directive No. 221, and the banking corporations are required to comply with the qualitative and quantitative requirements contained therein, including the computation of the "minimal liquidity ratio" under various scenarios and the measurement of additional parameters, such as the mix and concentration of deposits. At this stage, credit card companies are not required to comply with the new instructions and the requirements of Directive No. 342 shall continue to apply to them.
The liquidity coverage ratio is affected by four central factors: changes in the scope of non-liquid applications – mostly credit, changes in the scope of resources – deposits and the raising of funds through issuance, changes in the mix of deposits and changes in the mix of liquid assets.

The liquidity coverage ratio of the Discount Group

The liquidity coverage ratio of the Discount Group is high, standing above the required minimal ratio as from the initial date of the Directive. Liquidity surplus enables flexibility in the management of the balance sheet and support the work plans of the Bank and the long-term view point.
As of December 31, 2021, the ratio amounted to 127.50%, compared to 143.91% on December 31, 2020. The decrease of approx. NIS 3.6 billion in the liquidity surplus in the model (the difference between the liquidity buffer and the cash outflow), results from the fact that, in 2021, the Bank financed part of the credit portfolio's growth by utilizing surplus liquidity which had been accumulated in 2020, as was reflected by the decrease in liquid assets. In 2021, the pace of growth in the Bank's cash flow applications was greater than the growth in its cash flow sources.

The liquidity coverage ratio is based on a high and quality liquidity buffer. The liquidity buffer is based in shekels on the short-term loan (MAKAM), on Israel government bonds and on current account balances and deposits with the Bank of Israel. In foreign currency, the buffer is based on U.S. government bonds (in IDB Bank on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED.

Details of the composition of the liquidity buffer

		For the period ended	
	Assets included	December 31, 2021	December 31, 2020
		in NIS millions	
Buffer 1	Cash	39,970	33,088
	Israel Bonds/Short-term loans (MAKAM)	15,998	22,001
	Foreign bonds	9,911	8,057
Buffer 2	Sovereigns bonds	341	702
	Mortgage bonds issued by public corporations	381	8
	Corporation Bonds AA	772	798
Buffer 2 b	Corporation Bonds A	253	161
Total		**67,627**	**64,815**

The computation of the Group liquidity coverage ratio is based on an independent calculation of each of the Group companies. The Bank's Management has defined for each Company in the Group a minimum target for the liquidity coverage ratio. The transfer of liquidity from IDB Bank to its parent company (the Bank) is limited by local regulation, and therefore, the recognition of surplus liquidity of IDB Bank in the group model, is limited accordingly. The surplus of Mercantile Discount Bank, operating under a regulatory framework identical to that of the Bank, is included in the Group model.

Most of the liquidity surplus of the Group originates in the liquidity surplus of the Bank.

Distribution of the liquidity coverage ratio (average for the fourth quarter) according to the legal entities within the Group

	For the period ended	
	December 31, 2021	December 31, 2020
	In %	
Discount Group	123.05%	147.98%
The Bank	131.88%	165.43%
IDB Bank	110.57%	124.92%
Mercantile Discount Bank	128.56%	155.79%
Total	**123.1%**	**148.0%**

Disclosure regarding pledged assets (ENC)

	Pledged assets	Assets used as collateral for a central bank	Assets – not pledged	Total
		in NIS millions		
		December 31, 2021		
Cash and deposits with banks	2,447	51,231	5,960	59,638
Israeli Government bonds	1,374	11,155	14,675	27,204
Foreign Governments bonds			3,580	3,580
Israeli financial institutions bonds			123	123
Foreign financial institutions bonds		47	469	516
Bonds backed by assets (ABS) or by mortgage (MBS)	214	2	7,975	8,191
Bonds of others in Israel			553	553
Bonds of others abroad		116	1,967	2,083
Shares			1,619	1,619
Total available-for-sale bonds and shares not for trading	**1,588**	**11,320**	**30,961**	**43,869**
Securities borrowed or purchased under agreements to resell		1,207		1,207
Credit to the public	3,220	2,573	210,403	216,196
Total	**7,255**	**65,124**	**247,325**	**319,703**
		December 31, 2020		
Cash and deposits with banks	3,002	35,077	4,857	42,936
Israeli Government bonds	939	9,081	19,841	29,861
Foreign Governments bonds			861	861
Israeli financial institutions bonds			138	138
Foreign financial institutions bonds		50	425	475
Bonds backed by assets (ABS) or by mortgage (MBS)	273	3	7,728	8,004
Bonds of others in Israel			392	392
Bonds of others abroad		144	1,817	1,960
Shares			1,093	1,093
Total available-for-sale bonds and shares not for trading	**1,211**	**9,278**	**32,295**	**42,785**
Securities borrowed or purchased under agreements to resell		1,074		1,074
Credit to the public	2,681	2,730	187,068	192,479
Total	**6,895**	**47,085**	**224,221**	**278,200**

Concentrating the liquidity surplus at the Bank allows for higher flexibility in the management of the Group's liquidity. Alongside the expectation for the independent management of the liquidity risk by the subsidiaries, the Management of the Group is able to shift liquidity between the companies in the Group.

The liquidity coverage ratio in the principal currencies

The Bank measures also the liquidity coverage ratios in the principal currencies. As of December 31, 2021 the coverage ratio in shekels was 124.6% compared with 137.6% at December 31, 2020. The main factor resulting in the decrease in the ratio was an increase in the credit portfolio which was higher than the increase in deposits from the public, as explained above.

The liquidity coverage ratio as of December 31, 2021, respecting the total of foreign currencies, amounted to 138.7% compared to 174.6% on December 31, 2020. The main factors resulting in the decrease in the ratio were an increase in the credit portfolio which was higher than the increase in deposits from the public and the impact of swap transactions transferring liquidity from foreign currency to shekels.

The liquidity coverage ratio with respect to US dollars as of December 31, 2021 was 123.5% as compared with 158.7% on December 31, 2020. The principal factors leading to a reduction in the ratio were the growth in the credit portfolio, the growth in short-term financial deposits and the effect of dollar/shekel and dollar/Euro SWAP transactions. On the other hand, there was growth in deposits of non-financial corporations.

In Euros, the liquidity coverage ratio at December 31, 2021, was 150.4% compared with 126.8% at December 31, 2020. The main factor leading to growth in the ratio was the effect of Euro/dollar SWAP transactions activity.

The Discount Group has a surplus of resources in foreign currency over applications, principally in U.S. dollars and in Euro. Accordingly, the Bank, invests its surplus liquidity in securities, bank deposits and in the interbank foreign currency/shekel SWAP transactions market. This activity allows the Bank to regulate the use of this surplus between liquidity considerations and yield considerations.

Net Stable Funding Ratio (LIQ2)

	31.12.2021				
	Non weighted value according to periods of repayment				Weighted value
	With no repayment date	Up to six months	From six months up to one year	One year or over	
	In NIS millions				
Available stable funding items (AFS)					
Capital:	25,220	-	-	-	25,220
Regulatory capital	21,887	-	-	-	21,887
Other capital instruments	3,333	-	-	-	3,333
Retail deposits by individuals and small businesses:	-	139,881	7,430	2,345	137,996
Stable deposits	-	58,380	3,039	961	59,309
Less stable deposits	-	81,501	4,391	1,384	78,687
Wholesale funding:	-	109,269	7,128	9,642	49,516
Deposits held for operational requirements	-	-	-	-	-
Other wholesale funding	-	109,269	7,128	9,642	49,516
Liabilities with interdependent matching assets	-	-	-	-	-
Other liabilities:	-	15,186	2,324	12,543	13,705
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio	-	1,281			-
All other liabilities and capital not included in the above categories	-	15,186	2,324	12,543	13,705
Total Available Stable Funding (ASF)	-	-	-	-	**226,437**
Total high quality liquid assets according to net stable funding ratio (HQLA)	-	-	-	-	**13,019**
Deposits held with other financial institutions for operational requirements	-	-	-	-	-
Performing loans and securities:	--	112,419	24,977	137,388	153,471
Performing loans to financial institutions, secured by high quality liquid assets of level 1	-	-	-	-	-
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions	-	14,762	600	5,897	8,105
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:	-	95,695	22,489	86,425	104,951
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	55,185	353	3,500	4,901
Performing housing loans secured by a mortgage, of which:	-	1,906	1,864	43,150	38,733
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	578	569	13,348	9,250
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities	-	56	24	1,916	1,682
Assets with interdependent matching liabilities	-	-	-	-	-
Other assets:	88	3,102	483	5,179	6,967
Commodities physically traded, including gold	88	-	-	-	88
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)	-	-	-	-	-
Assets in respect of derivative instruments for the purpose of net stable funding ratio	-	-	-	4	4
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral	-	-	-	161	161
All other classes of assets not included in the above categories	-	3,102	483	5,179	6,714
Off-balance sheet items	-	104,082	-	-	5,204
Total required stable funding (RSF)					**178,661**
Net stable funding ratio (NFSR) in percentages					**126.70**

Additional financing risk information that is not included in the third pillar disclosure requirements

Financing risk is the risk of a resources structure that is not stable enough in the long-run, which will not serve the planned applications.
The risk is managed by means of drawing up a funding plan every year, which is orientated toward a long-term perspective in relation to the composition of the resources of the Bank and of each of its main subsidiaries. For details, see above.

Financing risk - available and unrestricted assets

The Bank pledges assets belonging to the liquidity buffer for several purposes, with an emphasis for use as collateral for financial transactions with entities as the Stock Exchange, the Bank of Israel, etc. As a general rule, all pledged liquid assets are excluded from the liquidity buffer for the purpose of the daily measurement, except for assets pledged to secure the ability to realize liquidity, which in fact has not been utilized. These are being excluded only upon utilization. Collaterals pledged in favor of the Bank, are not recognized in the liquidity buffer.

Available and unrestricted assets

	31.12.2021	31.12.2020
	in NIS millions	
Total assets	111,551	89,808
Liquidity requirement	10,399	8,498
Of which pledged	20,607	15,104
Of which provided as collateral	1,181	871
Total available assets	**79,364**	**65,336**

The growth in the liquid balances was largely affected by the raising of funds by the Bank towards the end of 2019 – COCO and bonds.

Additional risks

Operational risk

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events
The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

Policy

Operational risk management policy. The Bank defines the framework for operational risk management within the policy document, including a declaration of tolerance to operational risks. The main subsidiary companies have adopted the policy with the required adjustments.
These documents are approved once in each year by the Management and the Board of Directors. The Chief Risk Officer carries the supreme responsibility for the management of this risk at the Bank and at the Group.
The objectives of the operational risk management policy are to define the main principles and core processes in the management of operational risks to all the Bank's and group's units and this with the aim of ensuring the

effectiveness of managing, controlling and supervising the material operational risks which are inherent in all types of operations, processes, products, systems and business lines including risks tangent the operating risk, including IT risks, cyber risks, business continuity risks and outsourcing risks.
The risk tolerance declaration defines quantitative and qualitative limitations in respect of operational risk management. The quantitative limitations are being measured and monitored periodically by the operational risk management department of the risk management wing. During 2019, no deviations from the defined quantitative limitations were recorded. Within the framework of the annual confirmation of the statement, the maximum levels for a part the quantitative restrictions have been reduced. In addition, it has been determined that the Bank and the Group shall endeavor to form an effective mitigation plan for all the significant risks in the short-term.
The Bank computes the allocation of capital in respect of the operational risk by the standardized approach.

Structure and processes

The Chief Risk Manager bears the overall responsibility for the management of this risk at the Bank and the Group.

First line of defense

Each Division Head is responsible for the management of operational risks inherent in his area of activity. In addition, operating risk controllers serves at all of the Bank's divisions and Groups, the duty of which, among other things, is to assist the division head in managing operating risks, including identification of the risks, their measurement and formation of plans for reducing them. Operating risk controllers communicate with and report to the operational risk management department in the Risk Management Wing and are professionally guided by it.

Second line of defense

The operational risk management department in the Risk Management Wing, which reports to the Chief Risk Manager, is in charge of formulating the operational risk management policy and is responsible of verifying its implementation while providing the necessary tools in this respect, formation of a methodology for identification and measurement of risks, monitoring and reduction of risks and reporting the results to the Operational Risk Managers Committee, the Bank's Management and the Board of Directors. The Committee is also responsible for integrating the culture of managing the operating risks within the units of the Bank and the Group.
The Fraud and Embezzlement Unit operates within the Operational Risk Management Department, which is part of the Risk Management Wing. The Unit constitutes a second line of defense in managing the Bank's embezzlement risks. The Unit defines the manner in which fraud and embezzlement risks are managed, including their identification, assessment and close and consistent monitoring by each of the risk foci managers, including following up on alerts regarding suspicious activity by unauthorized employees.
The Department serves as the second line of defense in the matter of IT risk management, and acts to verify the propriety of risk assessment, the management thereof and effectiveness of the mitigation plans, emphasizing matters of corporate governance, strategy, availability and technological continuity in times of emergency.
A new field has been defined in the Risk Management Wing for cyber risk management, which is entrusted, inter alia, for the formation of a methodology for the identification and assessment of cyber risks, the monitoring thereof, follow-up of the mitigation process thereof and for the reporting thereof to the operational risk managers' committee, to the Bank's Management and to the Board of Directors. All this, in addition to the cooperation with the first line of defense in the integration of the cyber risk management culture within the units of the Bank and of the Group.
The main subsidiary companies have formulated an organizational structure to support the management of their operational risks along the same lines mutatis mutandis. Such an organizational structure enables an efficient and overall Group management of the operational risks in the Group.

Risk management and assimilation of the culture are carried out, inter alia, by means of two forums headed by the Chief Risk Officer, as follows:

Operational risk managers committee. A Management committee headed by the Chief Risk Officer with the participation of additional members of Management meets once in each quarter. The Committee discusses the risk management policy and the risk tolerance prior to their approval by Management and by the Board of Directors, and serves also as the factor which approves the methodology for identifying and quantifying operational risks. In addition, the Committee discusses material risks and failure events, if these occur.

Operational risk controllers' Forum. The Forum, headed by the chief risk officer. The Forum meets once in each quarter as a Group forum discussing specific or cross-organization risk issues, cross-organization failure events and enrichment of operational risk controllers acting in the Bank's business lines.

Measurement and reporting systems

Operational risk management system. An IT system for managing the operational risk in the Bank's business and operational processes has been fully deployed at the Bank and at the subsidiaries in Israel. The system enables Group management in accordance with the policy and methodology for the assessment of operational risks (including also cyber risks, business continuity risks, IT risks and more), and supports all risk management processes: reporting, management of the risk maps, the process for the reporting of events and their investigation. Assessment of the risks and controls is conducted in accordance with the formed methodology. Using the system, risk center managers conduct risk surveys independently, and in accordance therewith update on a current basis, the risk mappings and manage the risk mitigation plans.

Risk evaluation methodology. The risk evaluation methodology has been formed by the Risk Management Division and is used by the Bank and its subsidiaries in their current evaluation, both of existing risks and of risks involved in new work processes and new products. The methodology is examined periodically in order to ensure its effectiveness and relevance.

Operational risk survey. In accordance with the operational risk management policy, a survey of operational risks has to be performed once every three years or during the course of three years, and which is to be performed by means of a self-assessment (RCSA). A new, independent survey is planned to begin in 2021 and will be conducted by the managers of the various risk foci, being closely accompanied and managed by the divisional controller of each division of the Bank and of the subsidiaries. The survey's format and updated methodology will be defined by Risk Management.

Malfunction in the PayBox Application. For details regarding the malfunction in the PayBox application, see the 2020 Annual Report (p. ___). For details regarding lawsuits filed with respect to the said event and motions for their approval as class action suits, see Note 26 B item 11.1 to the financial statements as of December 31, 2021. For details regarding proceedings of the Privacy Protection Authority, see "Proceedings regarding Authorities" in the 2021 Annual Report.

Risk mitigation

Operating failure events. Investigating and reporting failure events comprising an integral part of the current risk management in its framework, the managers of risk centers report and investigate failure events that have occurred, draw conclusions and improve and strengthen controls over the various processes. The Bank is setting up a data base concerning the realization of operating failure events based on reports by the Bank's different risk centers. Such data base enables the analysis of failure factors, the treatment of risk centers and assessment of the severity of realized risks.

Current management of operational risks. The Bank examines on an ongoing basis exposure to operational risks and implements measures for the mitigation in the material risks level. The risk centers managers are taking steps towards the implementation of the risk mitigation plans and update on a quarterly basis, the information regarding the progress of implementation of the new controls. The performance status regarding the implementation of the mitigation plans is reported to management and the Board of Directors on a quarterly basis. In addition, the risk centers managers update the risk maps on a regular basis, following the implementation of controls (information systems, procedures, reports etc.), identify and evaluate risks and controls applying to new work processes or following changes in existing work processes. The internal failure events database enables the validation of the risk evaluation performed by the risk center managers and an examination on a current basis of the necessity for a re-evaluation of the risk.

Mitigating exposure to operating risks through the purchase of insurance. The means applied by the Bank with a view of mitigating exposure to operating risks, include, among other things, the purchase of a designated bank insurance policy that was issued to companies in the Discount Group - within a responsibility limit of US$115 million, that hedges a part of operating risks to which the Bank is exposed.

The Bank's insurance policy includes several relevant sections, namely: (1) Banking insurance section, focusing on events such as embezzlement by Bank employees, monies and valuable assets at the Bank's premises (see below), monies and valuable assets in transit, forgery of checks, forged collateral and forged monies; (2) Computer offences insurance section, focusing on events such as fraudulent or malicious input of electronic data directly into the Bank's computer systems or of a service bureau, or into an electronic money transfer system or to a customer communications system, fraudulent or malicious change or destruction of electronic data; (3) Professional liability insurance section, intended to insure the Bank in respect of its legal obligations to third parties, considering a lawsuit or claim for damages in respect of a financial loss resulting from negligent action, error or omission or betrayal of trust on the part of a Bank employee; (4) Personal deposit boxes insurance intended to insure the Bank in respect of loss or damage to customers' assets, including cash and jewelry, found in personal safe deposit boxes at the Bank's premises within the boundaries of the State of Israel.

With regard to money and valuables on the Bank's premises, it should be noted that the Bank has procured an additional policy, which increases the coverage for money and valuables at the Tel Aviv cash center by an additional US$185 million, beyond that covered by the banking policy.

Furthermore, within the framework of the insurance policy issued to companies in the Discount Bank Group, the Bank had purchased insurance coverage for claims against Directors and Officers within a responsibility limit of US$115 million. In addition, the Bank purchased an "Expanded Fire" policy to insure its property, an insurance covering its liability under law for bodily injury and/or property damage to third parties in the amount of NIS 185 million, and employer liability insurance. As to the matter of the Bank's responsibility under the law for bodily injury of its employees, in the amount of NIS 111 million.

Furthermore, within the framework of the insurance policy issued to companies in the Discount Group, the Bank purchases insurance coverage of US$35 million, for cyber risks and computer failure. This policy includes several relevant chapters, including: (1) responsibility of the Bank under the law towards third parties in respect of leakage of personal data following a cyber event; (2) certain expenses (IT service, legal service, etc.) which the Bank has to bear following a cyber event; (3) consequential loss to the Bank following failure of its computer systems.

The scope of the Bank's insurance coverage has been examined with the assistance of an independent professional advisor and is in compliance with Proper Conduct of Banking Business Directives Nos. 301 and 352.

Fraud and embezzlement risks

As a financial corporation, the Bank holds funds and financial assets of its customers. In operations of this nature, the most basic condition for conducting business is the trust which customers feel towards the Bank. Hence the importance of management of fraud and embezzlement risks.

The management of fraud and embezzlement risks is conducted by the Discount Group as part of the operating risk management. Management of the risk is achieved by three lines of defense:

First line of defense - The business units at the Bank and at the Group also identify fraud and embezzlement risks, on a current basis and within the framework of the operational risk surveys.

As part of the units and also in Risk Management, control systems are employed to locate suspicious activity by employees or outside customers.

Second line of defense - The Operational Risk Management Department in the Risk Management Wing defines the risk management framework by means of a chapter dedicated to the management of fraud and embezzlement risks in the policy document for operational risk management. The policy defines the manner in which these risks are to be managed, monitored, mitigated and reported.

In addition, the Department performs, by means of the Fraud and Embezzlement Management Unit, challenging of the assessment of the relevant risks. The Unit's responsibilities include also the following: raising awareness, current monitoring, by means of a system for identifying unusual activity by employees, and, when necessary, reporting to Internal Audit.

Third line of defense - internal audit as the third control circle, examines the risk surveys and the manner of challenging them, as well as examines the effectiveness of controls. Clear procedures and guidelines have been established as regards the manner of reporting of events suspected of embezzlement. In this respect, a "hot line" to the internal audit is being used, by which Bank employees report suspected/irregular events. As part of this process, the internal audit performs an extensive examination, which includes the issue of an audit report, and where required submitting the case to the disciplinary committee.

The internal audit is taking extensive publicity and drawing conclusions procedures in lectures to field units, executive conferences and various forums and distributes study material of extraordinary events for all the Bank's employees.

It is noted, that in addition to the examinations made following reports being received, the second and third lines of defense carry out initiated current examinations in order to monitor irregular transactions.

In cases where irregular activities are found or suspicion of actions contrary to employee work procedures, treatment of the case is conducted by the Disciplinary Committee, which may decide on termination of employment, reprimand, removal from office, transfer from the unit, etc.

Outsourcing and supplier risks

Outsourcing and supplier risks are part of the operational risk. Against the background of operations being outsourced and due to significant cooperation being undertaken with non-bank entities, in relation to core banking operations, the monitoring and control processes for outsourcing and supplier risk need to be strengthened.

The Bank's preparations for managing the risk, in accordance with Proper Conduct of Banking Business Directive No. 359A, "Outsourcing" include an updated definition of the policy and risk tolerance document, drafting plans for the management of the risk and the conduct of work processes relating to the identification of a significant outsource and determining the manner of the handling thereof, including strengthening the monitoring the control processes in relation to operations, using a risk-based approach.

The material outsourcing risks management policy, due diligence for material service suppliers and Proper Conduct of Banking Business Directives in the matter of outsourcing, are intended to provide proper solution for the management of the risk and for the reduction in exposure to potential risks embedded therein.

Business continuity

The business continuity risk (the risk of the Bank losing the ability to function continuously in stress scenarios and crises), affects all the operations and processes existing at the Bank and upon realization thereof causes the Bank different exposures. Accelerated development exists in recent years in the approach and treatment of business continuity management in organizations in general, and in financial institutions in particular. This development stems both from the implementation of the Basel II guidelines and as a result of local regulatory requirements, including the Bank of Israel, guidelines of the Stock Exchange, the Ministry of Finance and more.

Responsibility for business continuity management[2] in the banking industry lies with many functions in the organization, starting with the Board of Directors and the Bank's Management and ending with the managers and staff of the different units. The business continuity management process is a continuous process, within the framework of which, it is required to perform a comprehensive and advanced process of analyzing the business implications in order to identify essential processes and services, including by means of external suppliers. In this framework, the Bank is required to assess the risks and the potential impact of different disruption scenarios on the operation of the Bank and its reputation.

The Bank's Business Continuity Management Plan ("BCM") is designed to ensure the continuation of regular banking operations and services defined as vital, during periods of emergency on national and local levels. The plan covers and supports vital business operations, in all their chain of supply, from one end to the other: infrastructure, computer, hardware, software, communications, human resources, etc. All these will assure the Bank's continuing business operations under extreme circumstances, while providing an array of services to the Bank's customers at a reasonable level of service.

Layouts and services supporting the corporate and retail networks are at the disposal of customers, as follows: countrywide core branches that are prepared and equipped to continue and provide service during emergencies, backup branches for those damaged, direct banking lanes through telephone, internet communication and application. All these are designed to provide 24 hours a day banking services at any place, a "hot-line" for customers and countrywide automatic banking machines that enable self-service banking operations. In addition, the Bank is able to operate mobile bank branches in emergency situations.

At the basis of the preparations for continued business operations is the backup system established by the Bank for the vital technological infrastructure. The backup layout is based upon: the backup of information systems and technological infrastructure; two computer installations with hot backup; backup for the vital information systems; a third copy information backup; backup of vital installations; backup locations and alternative locations for vital units (dealing room, online banking/Discount TeleBank, and additional vital units); independent energy supply for vital installations; training of emergency teams for activating vital processes, and more.

Policy

The policy paper for the management of business continuity outlines the framework for the managing of business continuity, defines the Bank's solution concept for the confrontation with different crisis events involving business continuity, and forms the basis for a structure maintaining business continuity. The policy relates both to aspects of business continuity emergency situations, and to its routine aspects, and is being updated by the Management when required.

The document defines the targets for the preparation for business continuity management; the organizational structure under everyday and emergency situations; crisis management concept; authority and responsibility of executives in the business continuity layout; methodology for the management of business continuity. The document is approved annually.

Structure and processes

In accordance with Proper Conduct of Banking Business Directive No. 355, the framework for the management of business continuity, includes Business Impact Analysis (BIA) being a dynamic process for the identification of essential processes and services, including those that are interdependent, internal and external key factors and adequate levels of durability. As part of this analysis, different scenarios are tested and assessments are made of the risks and of the potential impact of different disruption scenarios on the operation of the Bank. Also assessed are the risks for the purpose of making appropriate preparations and minimization of the damage.

2 Business Continuity Management – an overall organizational approach that includes policy lines, standards and procedures, the aim of which is to verify that certain actions can be performed or returned to activity in a timely manner, in the event of disruptions.

Exercise. A significant part of maintaining a high preparedness level for business continuity management is the performance of exercises and training. A multi-annual exercise plan has been formed by the Bank, within the framework of which work processes and the response plans for the maintenance of business continuity are examined and conclusions are drawn as to their improvement.
In view of the growing cyber threat, the Bank invests considerable resources in the formation of plans providing solution for the maintenance of business continuity in case of occurrence of cyber events.

Management of business continuity in view of the Corona crisis

As part of the managing of the Corona crisis, the Bank and the Group companies have made a significant quantum leap as regards the business continuity abilities, and during the crisis and the different morbidity waves the Bank continued to provide all banking services to customers.
Among other things, the quantum leap included:
- Expansion of abilities to serve customers by telephone, in the advance fixing of appointments at the branches and the ability to work at home;
- Providing cash services by means of designated vehicles accessible to customers, with an emphasis on the third age population and residents of care homes;
- The ability to provide all banking services during the pandemic crisis and to enlarge services on the digital channels;
- A significant all-round connection of employees of the Bank to distance work with a secured infrastructure;
- Improved ability to confront cyber risk, backup and recovery abilities;
- Improved ability for crisis management.

Measurement and reporting systems

The mapping of business continuity risks, the evaluation and monitoring thereof is being conducted as part of the identification and evaluation of operational risks and it is managed by means of the operational risk management system. This assists the Bank in managing the risk effectively and with a high degree of transparency.

Other risks

Information technology risk management

General. The IT layout is a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.

Strategy and policy

Policy and strategy documents:
- Information technology policy, the essence of which is managing and operational information technology aspects;
- Information technology risk management policy, the substance of which comprises basic principles for the reduction of exposure of the Group to the realization of these risks;
- Policy regarding the use of cloud computing technology, which defines guidelines for the use of cloud technology.

Structure and processes

The Head of the Technologies Division serves as the information technology risk manager at the Bank and the Group.

Risk management units

First line of defense – Risk management department. The responsibility of the department is to outline, in collaboration with the Risk Management division, the IT risk policy; to guide the computer units at the Bank and at the Group regarding the management of IT risks, and to supervise the implementation of the policy in this matter; to outline control processes designed to assure that exposure to IT risks will not deviate from the determined maximum risk tolerance, and exposure limits determined in accordance therewith and to periodically perform a self-evaluation of the risk and effectiveness of the risk management process.
Operating within the first line of defense is the Information technology risk management committee, which is responsible, among other things, for the examination of the information technology risk management policy, examining material risks and monitoring the application of plans for their mitigation, review of material failure events in the area of IT and the drawing of conclusions and lessons, examination of the determined tolerance threshold for information technology risks, and more.
Second line of defense. The operational risk department within the risk management wing, which operates under the Chief Risk Officer, is responsible for the formation of a framework for the identification and assessment of information technology risks, including verification of the effective risk management regarding significant projects, and an independent assessment of the appropriateness of the preparation made by the information technology group regarding emergency situations and/or stress situations.
In addition, the department is also in charge of monitoring the risk mitigation process and of reporting the risk profile to the Bank's Management and to the Board of Directors. This, in collaboration with the first line units and similarly to the management format of all the operational risks.

The core processes for risk management

The core processes are based on the risk management principles, with the required adjustments to the information technology world, including: the mapping of all of the Bank's systems in order to evaluate the level of importance of each system to the Bank's business activity and to evaluate the existing control environment of the system, assessment of the exposure to the realization of business risks, such as: credit risk, market risk, compliance risks, etc. deriving from a technological failure, and more.
In addition, IT risk surveys and data protection risk surveys are being performed in the systems of the Bank, at intervals that match the criticality of the system and the risk inherent therein.
These processes allow effective focusing on areas and systems that had been identified as having the highest risk of disrupting business operations. They also enable the formation of a multi-annual work plan as well as a rapid adjustment of the risk management strategy and the risk map, in accordance with changes occurring at the Bank and/or in its operation environment.

Reporting

The Head of the Technologies Division reports to Management and to the Board of Directors, at fixed intervals, attainment by the Technologies Division of its commitments regarding performance and on attainment of service and availability indices, deviation from the risk tolerance level, as well as risks of a "very high"/"high" exposure level. An immediate report is submitted in case of a material event, such as: shutdown and material disruptions, cases where material deviation from the risk tolerance level had been identified regarding information technology at the Bank or at the subsidiary companies within the Group, material failure events and corrective action that had been taken in respect thereof, and more.

Business continuity

As part of the Bank's preparations to ensure its business continuity, in its core systems the Bank operates by the "hot backup" method. The meaning of this is that the computers in both sites are updated simultaneously with the entries created at the Bank branches, and accordingly, in the case of disruption occurring in the central computer location, the computer in the secondary site enters into operation without losing any entries.
In addition, an infrastructure for a third copy of data has been established in a third site, using the "hosting" model, which includes all the production data of the Main Frame computer and of the critical system data of the open environments.

Data and cyber protection risks

General

The tremendous technological development in recent years, the Bank's business development strategy in the digital arena and the rise in third-party use of data services expose the Bank to an ever-growing number of cyber threats, as is also the case for the whole financial segment.
The principal potential damage associated with the materialization of cyber threats and data security risks results from compromising privacy and confidentiality of data of the Bank, its customers and its employees, financial loss, data disruption in the systems, harm to the availability and survivability of the systems and data, and harm to the Bank's business and its reputation.
The Bank views securing and protecting the reliability, resilience, availability and survivability of the IT systems and data to be a central goal and invests considerable resources in order to protect its data and systems.
The risk image continues to be affected by the continuation of the Corona pandemic, requiring the expansion of distance work by Bank employees in order to maintain business continuity, resulted in enlarging the area of the Bank vulnerable to attack, and a significant rise in cyber-attacks in Israel's cyberspace by sophisticated players utilizing advanced and effective capabilities.

Strategy and policy

Data protection and cyber defense at the Bank are regulated and directed in accordance with various regulatory provisions, including the Privacy Protection Act and Regulations, the Computers Act, Proper Conduct of Banking Business Directives, and particularly Directives Nos. 357, 361 and 363, on the basis of which, two master documents have been drawn up and approved by Management and the Board of Directors:
A strategy document and cyber protection and data security policy. Set out in this document are the basic principles for cyber defense management, corporate governance and the duties of the various lines of defense, including the coordination and control needed in order to establish an effective defense; the approach to cyber defense and strategy, the establishment of a framework for the management of cyber risks and data protection, and the core risk management processes, including risk identification and assessment, the controls and the reporting processes.
Cyber risk tolerance document. The document defines the tolerance to the risk level, taking into consideration the evaluation of representative scenarios regarding attacks on the Bank. The process of setting the Bank's tolerance limits for cyber risk requires a balance between, continuing to develop the Bank's advanced services in order to add value for its customers and to successfully cope with the competitive environment on the one hand, and the expectation of further deepening and expansion of the cyber threats and of the scope of resources that have to be invested in implementing effective cyber protection.

Except for the protection of the computer system, the defensive actions are directed to provide a response to significant business processes of the Bank. In this way, a defense layer focused on a comprehensive-business viewpoint risk would be stabilized.

Threats in the cyberspace

As a general rule, threats in the cyberspace are threats that may cause a shutdown of systems, preventing material services, material damage to confidentiality and completeness of data and performance of hostile actions and fraud.
In recent years, we are witnessing a global intensification of this threat, both regarding the scope of attacks as well as their sophistication, including also Internet crime against the banking sector in Israel, including Discount Bank, with the digital channels and self-service instruments being in the center of which.
Notwithstanding the above and in view of adaptations made in recent years to the Bank's protection layout, in 2021, no one or more cybernetic incidents occurred that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.
The Bank acts on a regular basis to map and analyze the threats that might affect its activity in the cyber arena and invests resources in means to protect and cope with such threats.
Three outstanding trends were noted in 2021:

- The Iranian Government acted through subcontractors, with the aim of impairing the Israeli economy. This by way of ransom ware attacks having a double target: financial component – the payment of ransom to the attacking agent, and a national component – embarrassment of the victim on the social networks and on the different media channels (thus embarrassing the State of Israel);
- Increased attacks on the part of activist groups. Following the changes taking place in the geopolitical field between Israel and its neighbors, increased attacks by activist groups supporting anti-Israeli activities are noticed;
- Exploiting weaknesses and carrying out of complex attacks including ransomware attacks – increasing exploitation on the part of factors having financial motivation, is noticed with respect to unknown weaknesses, for which protection updates by software producers had not yet been provided, compared with past years, in which increasing threat came from countries having research resources. This trend may affect the Group, both by damaging one or more material suppliers and by direct damaging of one of the systems of the Group.

The means of monitoring operated, took into consideration the increasing external cyber risk and the level of sensitivity of different users, including the level of authorizations of transactions or exposure to customer data.

Structure and processes

First line of defense. A data and cyber protection manager is directly subject to the Head of the Technologies Division and he is responsible for outlining the data security and cyber protection policy for the Bank and Group, in order to implement the protection.
Attainment of the data and cyber protection goals is achieved through the implementation of a set of protection means, monitoring and control. Starting with policy and procedure outlines, determination of areas of responsibility and authority, installation of protection and reinforcement technologies, and ending with monitoring methods and treatment of incidents.
Data protection surveys and penetration tests to the Bank's systems are performed by independent external companies specializing in data protection and information technology risks. The frequency of performing a survey in respect of each system is determined according to the criticality of the system and the risk inherent therein.
Second line of defense. The Operational Risks Department, at the Risk Management Wing, which is accountable to the Chief Risk Officer, is in charge of drawing up a framework for identifying and assessing the cyber risks and for the tracking of the process for their mitigation, and for delivering and reports to Management and the Board of Directors regarding the risk profile. This, in addition to partnering the first line of defense in instilling the cyber risks management culture within the units of the Bank and the Group, similarly to the format of management of all operational risks.

Third line of defense. In the framework of the Internal Audit Division, a Wing is engaged in the technologies and digital field, performing current audits in matters of data protection and cyber defense, as well as combining these aspects with the activity of the Internal Audit Division, where required.
Subsidiaries. The subsidiaries have established an organizational structure that supports their cyber risk management, in a similar spirit, mutatis mutandis. The aforesaid organizational structure enables the comprehensive and efficient group management of cyber risks at the Group.

Protection of the Bank's sites

In accordance with the Bank's policy in the matter, systems preventing unauthorized access as well as systems monitoring and identifying deviation from authorized activities are integrated at the Bank. Protection of the marketing sites and of the Bank's operations is continuous.
The Bank operates a data protection center that operates continuously throughout the year (24 hours per day 365 days per year) the object of which is identifying risks breaches, exposures and vulnerabilities in the data protection system, and is responsible, among other things, for the identification and warning of any activity intended to damage the Bank's sites or its customers (by means of imitation sites). Furthermore, the Bank's operational sites that provide service to customers over the Internet, are protected by several layers of defense, which include protection components for hardware/ communication/and services providing information regarding attacks and hostile addresses. Infrastructure systems are monitored and reported to the data protection center.
As part of risk management, the Bank investigates incidents, gains insights and draws conclusions. In accordance with the risk outline and in accordance with Proper Conduct of Banking Business Directives Nos. 357 and 361, the Bank conducts at required frequencies, risk surveys and penetration tests, following which, mitigation measures are being applied. The treatment of identified deficiencies and gaps, whether discovered by the surveys or by investigation of events, is conducted according to prioritization, in a risk based approach, which is integrated in the work plan.
Data protection and cyber defense activities are being implemented in accordance with the work plan, as approved by the Bank's Management and Board of Directors.
Also including systems and projects under development and maintenance which are being closely assisted by professional mentors.
The Bank conducts current operations for increasing awareness and improvement of the organizational culture from the aspect of data protection, which among other things include training, publication of policy documents, manifests and marketing tools. The Bank has established in procedures most of its operations and processes, and the data protection unit at the Bank is involved in the approval of all the Bank's procedures in order to ensure the early identification of operations causing data protection risks and cyber defense.
Mitigating the exposure to cyber risk through purchasing insurance. For details, see "Operational risks" above.
Aspects of physical safety, to the extent that they might be connected to data protection, are managed and implemented by the Bank's security officer, in conjunction with the data protection manager.

Environmental risks

Background

Recently, the subject of environmental and climate risks management is receiving high regulatory attention, stemming from the understanding that realization of environmental and climate risks may impact the banking system, and in extreme cases lead also to global and systems effects. Accordingly, regulators in Israel and around the world are making progress with the regulation of this matter, with a view of enabling identification, monitoring and management of the risks, when the banking system is expected to develop tools for the management of these risks, including determination of the governance framework, strategy, risk appetite, management of the risks derived from operations and management of transition risks.
In 2009, following a regulatory expectations letter in the matter, addressed to the banking system, regulation of the

activity of the Bank in the matter has been introduced, including as part of the credit policy and of the specific procedures for the approval of credit.

On December 1, 2020, the Supervisor of Banks addressed a letter to banking corporations and credit card companies in the matter of management of environmental risks. The Supervisor of Banks places great importance on the promotion of the subject of environmental risks, and views the banking corporations as important partners in the transition to sustainable environmental economy, inter alia, by means of forming the appetite for environmental risk, credit policy, investments, allocation of capital to "green" finance and investment activity, and more.

Within the framework of a circular by the Bank of Israel dated December 2, 2021, regarding disclosure to the public of environmental aspects, society and governance (ESG), it is, inter alia, required to examine the need to broaden disclosure of risks, to which the Bank is exposed in this area, including due to developments related to climate changes and transition risks, and in order to reflect material changes in the mode of management of such risks, and include, inter alia, quantitative indices for the measurement of exposure to such risks.

Banking corporations may be exposed to environmental risks relating to the different aspects of their activity. These risks might be included in the framework of other risks, such as: credit risk, market risk, operational risk, legal risk and liquidity risk.

The approach of the Bank

Environmental and climate aspects are being examined along two central pivots:

Environmental and climate risks relating to the operations of the Bank for itself. Discount Bank attributes importance and relevancy to the subject of the environment, both regarding the social field and regarding the economic field, publishing for over a decade, the principal actions taken in this respect in a corporate responsibility report to the public. In its operation, the Bank endeavors to create a positive influence in aspects of commitment to and involvement in the community, variety and containment in employment, responsible management of the chain of supply, training and development of employees, savings and efficiency in its routine operations and reduction of the carbon footprint of the Bank in its operations, while changing to "green" energy and construction. The Bank has adopted a policy of maintaining a fair balance between business operations and protection of the environment, and is committed to present continuing improvement in its environmental actions, without compromising the quality of service rendered to its customers.

The Bank has defined as Super-goals on this subject that it is committed to the principle of sustainable development, committed to the prevention of environmental damage and to the continuous improvement in environmental actions, stands for an initiatory and proactive approach for the reduction of damaging effects on the environment in the field of assets, and examines on a current basis alternatives for the saving of energy with respect to operating electrical equipment and air-conditioning. The Bank monitors its carbon footprint and other direct environmental impacts resulting from its operations, and voluntarily reports to the Ministry of Environmental Protection regarding its carbon footprint (at this stage, without measuring these aspects regarding the chain of supply).

The Discount Group began in 2016 the construction of the Discount Campus, intended to house the head offices of Discount Bank, MDB and of ICC, including the computer installations. The Discount Campus had been planned in accordance with strict environmental standards, being based on the principles of green construction and had been qualified according to the LEED V4 grating of the US Board of Green Construction. The planning and construction team endeavors to obtain a green rating of LEED GOLD. The high accessibility level, construction under green standards and the gathering of the head offices of companies in one group campus, alongside integration of technological means for the holding of online meetings and training courses, would allow savings in time and energy resources. Furthermore, the Bank studies also the environmental effects regarding the existing buildings, as a basis for taking decisions in matters of construction and properties (integration of green criteria, both as regards engineering planning and in choosing materials and environmental controls, which include measurement and monitoring of radiation in Bank premises).

Environmental and climate risks management regarding business activity and transactions with customers. This pivot is being regulated since 2009, and in this framework, the Discount Group applies a policy, according to which, the examination of the environmental risk will comprise a layer in the total risks being examined by the

corporation upon extending credit and in the current management of credit.
Financing agreements made by the Bank require customers to declare that they operate and conduct their business in accordance with provisions of environment laws, and undertake to continue doing so all along the period of the loan. Furthermore, customers undertake to inform the Bank, immediately upon receiving notice, of any environmental claim against them, as well as regarding circumstances that might be considered as violation of any environmental law.
The Bank has an orderly credit methodology regarding environmental risks, intended to monitor credit loss risks, which might be caused as a result of directives relating to environmental hazard and enforcement of such directives (e.g.: deterioration in the business condition of a customer due to penalties imposed for noncompliance with the provisions of the law). As part of this methodology, an evaluation process of the level of environmental risk had been defined in respect of customers in sectors that might be exposed to environmental risks, and of the risk management quality of such customers. This process is conducted upon the granting of credit and upon the periodic review of the quality of customers and of the collateral provided by them and in accordance with the materiality level, with special reference to customers having a high potential for environmental risk.
As part of the overall process of environmental risks management, the Bank offers credit to green businesses, everything subject to compliance with rules for the granting of credit prevailing at the Bank, including examination of the repayment ability of the borrower. "Green credit" is defined as credit granted to finance the operations of a corporation producing green products contributing to the protection of the environment, credit to a corporation conducting a green production process that protects the environment, credit granted for the establishment of a green activity, including the purchase of green machinery and equipment, and for the upgrading of production systems to such that protect the environment.
Concurrently with the preparations made by the Bank for the upgrading of environmental and climate risks management, the Bank realizes that climate changes comprise not only risk but also opportunities regarding renewable energies – an opportunity to broaden credit activity on the one hand, and assist in the national effort to reduce carbon emission and struggle against climate changes on the other hand. The Bank has a specific policy regarding the granting of credit to the solar systems field, both to business consumers and to private consumers. Within the framework of this policy, processes had been determined, inter alia, for the granting of credit, as well as for controls and specific collateral for this area. The Bank's credit exposure in respect of the financing of projects involving solar energy amounted at December 31, 2021 to NIS 890 million, as compared to NIS 1,020 million at December 31, 2020. This, over and above the finance granted by the Bank to corporations operating in this field.
Alongside the environmental and climate aspects management pivot relating to the credit activity of the Bank with its customers, environmental and climate aspects have recently been integrated into the investment policy of the Bank, while combining responsible investment considerations, which take into account in addition to economic gains from the investment also the overall social welfare, including definition of the need to examine ESG indices, published by rating agencies and/or another accepted ESG index, as an integral part of investment considerations, which include increasing the RAROC requirements in respect of investments of a high ESG index and, of course, subject to financing principles and the detailed policy of the Bank.
In addition, the Bank prepares for the examination of the effects of environmental and climate aspects as part of the capital adequacy assessment processes and of the capital requirements stated in the second pillar.
In conclusion, the Bank has begun preparations in the matter, as stated above, and is studying the subject in order to prepare for the upgrading of environmental risk, climate risk and transition risks management, while studying the formation of a strategy, international management and reporting frameworks, and determination of supporting quantitative goals.

Legal risks

General. A legal risk is the risk of loss, loss of income or damage to the business caused, inter alia, by the absence of power to legally enforce execution of a contract, by ignorance of the provisions of the law, by a mistaken interpretation of the provisions of the law, including principal or secondary legislation, directives of supervisory authorities, etc., requiring the Bank to act in accordance therewith, or from exposure to legal proceedings against the Bank or any of its employees or officers within the framework of their work at the Bank or on its behalf, on the criminal, administrative or civil plain.

The legal risk includes, inter alia, exposure to penalties, fines or other punitive damages, as a result of supervisory enforcement actions as well as private settlements.

According to Proper Conduct of Banking Business Directive No. 350, the legal risk forms part of the operational risk. The operational risk is a risk of losses due to improper or failure of internal processes, employees and systems, or due to external events.

The principal risk factors for legal risk exposure: absence of knowledge of the law applying to the operations of the Bank and the Group, mistaken legal advice, activity without legal support, mismatch of standard documents and procedures to changes in the law, and non-compliance with the law and/or regulations.

The activity of the Bank is regulated by various regulatory provisions and by legislation, regulations and rules imposing on the Bank various duties and restrictions regarding the areas of operation and sources of income, on the part of the different regulatory authorities to which the Bank is subject within the framework of its operations, this, inter alia, due to its status as a "banking corporation".

Any action in contravention of these instructions or the non-implementation of which, may expose the Bank to legal risks.

The Bank and the subsidiaries under its control are exposed to frequent changes in legislation and various regulatory directives, which expose the Bank and its subsidiaries to risks involved in frequent changes in work procedures and to costs involved in the preparations required for the implementation of the relevant directives.

Management policy of the legal risk

The Bank has a Group legal risk management policy, which is updated from time to time. The last update of the policy was made and approved by the Bank's Board of Directors in August 2021.

As part of the policy, it had been defined, among other things, that the management of the legal risk is differentiated from the management of the regulatory risk, which shall be managed within the framework of the Bank's Group Management and Regulation Division. The regulatory risk is focused on the identification and the monitoring of legislation proceedings and on draft directives of the Bank of Israel and the timely bringing thereof to the attention of the relevant functions at the Bank, with the aim of properly analyzing the impact of such proceedings upon the Bank, and ensuring the initiation by the Group of the required proper preparations. The Bank's legal risk management policy has been adopted, mutatis mutandis, by the principal subsidiaries in Israel and by IDB Bank.

The objective of the policy is to outline a framework for managing the legal risks of the Bank and of the Discount Group companies, through establishing the areas of responsibility and authority of the various organs involved in the risk management and monitoring, by way of determining Group standards for the management of legal risk, and the regularization of the manner of managing legal risks, among other, by way of identifying and locating the legal risks, the minimization of which and preventing their reoccurrence.

Within the framework of the management of legal risks, the Bank assembles and digests information regarding legal risks at the Bank and the Group, including information regarding changes in existing legislation and/or judgment updates having material implications on the Bank's operation, as well as monitors claims and legal proceedings in which the Bank and its subsidiary companies are involved.

Within this framework, a current follow-up is performed of changes in the laws and regulations that have a material impact upon the operations of the Bank and companies under its control, in order to prepare for their implementation and reduce exposure that might arise from the non-compliance thereof.

Declaration of tolerance to legal risks

Due to the nature of legal risks, only qualitative limitations have been set as regards their acceptance.
The Discount Group shall not conduct operations, which might lead to conscious exposure to offences or violation of the law and regulations, and which might be followed by criminal proceedings and adoption of criminal or administrative sanctions against the Bank and/or the Discount Group or against any of its employees or against officers of the Bank and/or the Group, within the framework of fulfilling their duties at the Bank and the Group and for them.
In relation to the legal risk that might have business implications only, the tolerance of the Discount Group for the legal risk shall be derived from the cross organizational implications of the risk and the reputation aspects involved in this risk.

Structure and process for legal risk management

The Chief Legal Adviser is the chief legal risk manager at the Bank and at the Group.
In order to implement the legal risk management policy forums, committees and procedures the duty of which is to examine exposure to legal risk (potential or realized) were established, and the manner of treatment thereof, performance of constant monitoring of changes in the law, regulation and judicial decisions, which may have material implications on the Bank's operation. Where required, representatives of the Bank's subsidiaries participate in these forums and committees.
In addition to that discussed above, the Bank and the Group have established reporting procedures regarding exposure to legal risks (potential or realized), including reports regarding law and regulation.

Core processes in respect of legal risk management

The legal advisory division maintains a chain of core processes designed to support the identification, assessment, monitoring and mitigation of material legal exposure.
As part of the legal risk management policy a duty, among other things, has been imposed on the Bank and on its group companies to act in accordance with the current legal counseling and maintain a solid reporting infrastructure as regards exposure to legal risk.

Lines of defense for legal risk management

Legal risk is being managed within the framework of three defense lines, to which are added management and control operations by the Bank's Management and by the Board of Directors.
First line of defense – includes the business functions, who make decisions which might have a legal risk, which are responsible for the identification of legal risks and for the reporting thereof, as well as establishing supervision and control mechanisms for legal risk management at the units under their responsibility.
Second line of defense – includes the Chief Legal Adviser, the risk management committee of The legal advisory division and lawyers of the division trusted with the management, implementation and integration of the legal risk management policy, as approved by the Bank's Board of Directors and the risk management division which is responsible for the methodological guidance in the field of risk management and for providing tools supporting the legal risk management procedures.

Third line of defense – includes the internal audit division. The internal audit is responsible for providing its own independent assessment of the extent of effectiveness of the implementation of the processes and procedures for the management of legal risks.

Compliance risks

Compliance risk is the risk of exposure of the banking corporation to judicial or regulatory sanctions (including aspects of fairness and integrity), to a material financial loss, to impaired reputation and to criminal liability imposed on the bank and/or on officers thereof, resulting from failure to comply with legal and regulatory directives.

Compliance risk at the Bank is being managed by the Chief Compliance Officer when with respect to consumer regulations, compliance risk is managed by the compliance function, and with respect to other than consumer regulations, by compliance risk officers of the different divisions. This, in accordance with Proper Conduct of Banking Business Directive No. 308 (with respect to regulations in the matter of money laundering and finance of terror prohibition, see below "Officer responsible for the fulfillment of duties concerning anti-money laundering aspects"). The Chief Compliance Officer is administratively subject to the Chief Risk Officer.

The operations of the Bank and of its subsidiaries are subject to various regulatory instructions (laws, regulations, orders and directives regulating banking operations in Israel with respect to bank/customer relations), both in areas of banking activity and in other areas.

New lines of business and/or new products of the Bank, frequent changes in regulation and the numerous new regulatory directives, which impose duties on the Bank and on its subsidiary companies regarding existing or new lines of business, require adaptation of the infrastructure supporting the duties deriving there from.

Policy document regarding management of compliance risk. The Group policy document for the management of the compliance risk has been approved by the Bank's Board of Directors, all in accordance with the Proper Conduct of Banking Business Directive No. 308. The Group policy document has been sent to the material subsidiaries in order to be implemented with the necessary modifications. The policy document establishes basic principles taken from the Basel documents regarding compliance aspects and corporate governance principles. The document defines the structure of the lines of defense supporting the management of compliance risk and areas of responsibility, the methodology for assessing the compliance risk in its broad sense and the tools that will be made available to the employees details the main core procedures of the operation of the compliance officer and the various interfaces, as well as the principles for the management of Group risks.

Supporting infrastructure. Different kinds of infrastructure exist at the Bank to verify implementation of the regulation – computer, control, integration (procedures) and training infrastructure. As part of the examination of a new activity or a new product or a new regulation or an update to a regulatory directive, examinations are performed with respect to the infrastructure supporting the activity/product/regulation and its agreement with the risk deriving from the activity/product/ regulation.

A study of the Bank's infrastructures was performed at the end of 2013. As part of the study, the regulatory consumer directives that apply to the Bank were mapped, as were the infrastructures for their implementation. As a result of the study's findings, mitigation plans for the mitigation of the compliance risk were defined. The Compliance Unit monitors the implementation of the mitigation plans and the establishment of appropriate infrastructures. In recent years the survey is being conducted on a current basis and in a risk based manner.

The Bank and the Group operate a mechanized system for the management of compliance risk, which enables the management of the risk in a risk based fashion founded on the products of the infrastructure survey that had been performed.

An infrastructure of procedures exists at the Bank, that is intended to bring about enforcement of the compliance with the various requirements of the regulatory directives in general and the consumer regulations in particular. The procedures are updated from time to time in accordance with the regulatory directives and in accordance with the various activities performed by the Bank. Concurrently, and to the extent necessary, the supporting systems are updated with the said regulatory provisions within various activities are being updated. In addition, in order to increase awareness to the importance of compliance with the provisions of the law and regulation, the Bank conducts study sessions on the subjects of compliance among the staff, including managers in general, and of compliance with the consumer regulatory instructions relevant to the work environment of specialized groups of employees in particular.

Control and supervision. Compliance with the provisions of the regulations are enforced on a regular basis by means of various control and supervision systems in accordance with annual plans for control performance - the compliance officer, compliance unit, the prohibition of money laundering unit and the consulting control and enforcement unit, compliance officers, compliance trustees and internal audit. With a view of improving control mechanisms and tightening supervision over compliance to regulatory provisions, as stated, including in the matter of prohibition of money laundering and the finance of terror, the Bank has appointed Compliance Officers, compliance trustees at various organizational levels (branches, regions, divisions, as the case may be).

The internal audit constantly and continuously audits all areas of operation of the Bank. For details of the activities of the internal audit, see the section "The internal audit in the Group" in the 2019 Annual Report.

Compliance officer. According to Proper Conduct of Banking Business Directive No. 308, the compliance officer is responsible for coordinating the treatment of compliance by the Bank with the provisions of the law, in order to assist senior Management in the effective management of compliance risks facing the Bank, including anti-money laundering issues.

The Chief Compliance Officer at the Bank, a senior executive responsible to an Executive Vice President coordinates and manages the field of compliance and the field of prohibition of money laundering and the finance of terror, within the framework of the compliance and money laundering prohibition department as part of the risk management division.

The Chief Compliance Officer acts in this role also at several subsidiary companies of the Bank. Most of the subsidiaries in Israel and abroad have appointed their own compliance officers in accordance with the said instruction, and the Chief Compliance Officer maintains communication with them on a regular basis. Between the compliance function at the Bank and the compliance functions at the subsidiary companies, an interface exists for the purpose of updating and coordination within the framework of which, among other things, operates a permanent forum of compliance officers of the Group in Israel, which convenes in each quarter. In addition, action is being taken to tighten the interface with the compliance function at IDB Bank.

For the purpose of his work, the Chief Compliance Officer is assisted by the compliance committee that meets once in every quarter.

The Chief Compliance Officer monitors the Bank's preparations for the implementation of the duties imposed on it under the Provisions of the law, involved in an active manner in the preparations for a new activity or a new product at the Bank, for the purpose of verifying compliance of the Bank with the said duties relevant to the Bank's new activity, and monitors the rectification of various deficiencies in complying with the consumer instructions. The Chief Compliance Officer submits quarterly reports to Management of the Bank and to the subsidiary companies at which he acts as compliance officer. In addition, the Chief Compliance Officer submits to the Bank's President & CEO, to the CEO's of the said subsidiaries and to their Boards of Directors, an annual report summarizing his operations.

Officer responsible for the fulfillment of duties concerning anti-money laundering aspects being an additional duty performed by the Chief Compliance Officer, who is appointed for this duty under item 8 of the Prohibition of Money Laundering Act (hereunder: "the Act") and related regulations, and he is responsible for the fulfillment of the duties imposed on the Bank with respect to prohibition of money laundering and the financing of terror activities.

The money laundering and finance of terror risks comprise the risk of damage caused to the Bank following violation of duties under legal and regulatory instructions applying to the financial sector in this area, including Proper Conduct of Banking Business Directive No. 411, various instructions of the Supervisor of Banks and due to the non-application of relevant international standards relating to this field. Noncompliance with such duties might expose the Bank and/or the Group to monetary sanctions, to the imposition of criminal responsibility on the Bank and its employees and to reputation risks having significant implications.

As stated, the Prohibition of Money Laundering unit forms part of the compliance department in the Bank's risk management group.

The subsidiaries in Israel as well as the Bank's overseas extensions that are subject to this requirement, have also appointed an officer responsible, as required by law.

The party responsible for the prohibition of money laundering is responsible for establishing and managing the infrastructures needed in order to comply with the legal provisions to which the Bank is subject, including performing an annual risk assessment with regard to the prohibition of money laundering and the financing of terror, drafting work procedures, setting up a computerized support infrastructure, assessing controls, and developing training and assimilation arrays. In addition, said party is responsible for submitting reports to the Money Laundering Prohibition Authority, with respect to activity that has to be reported in accordance with the law. Moreover, once every six months, the responsible party sends a compliance risks report to the Bank of Israel in conformity with Reporting to the Supervision Directive No. 825.

The Bank is assisted by a dedicated computerized system for the purpose of monitoring transactions that appear to be irregular and require to be reported, this being in addition to the ongoing computerized monitoring of transactions in accordance with a risk-based approach.

The Bank conducts a variety of ongoing training and assimilation activities in the various units in order to raise awareness and increase knowledge with regard to these topics.

The officer in charge of money laundering prohibition communicates with the subsidiaries in Israel and abroad for the purpose of monitoring the implementation of the Bank's policy and regulatory directives in this area on a Group basis. See "Prohibition of Money Laundering Law and Prohibition of the Financing of Terror Law" under "Legislation and supervision" in the 2019 Annual Report regarding legislation in the matter of money laundering.

Included within the framework of managing money laundering and terror financing risks are risks resulting from relations with Iran or with enemy states. The Bank stringently endeavors to comply with the statutory provisions in this regard, including the provisions of the Prohibition of Money Laundering Act, the Trading with the Enemy Ordinance, the Counter-Terrorism Act and the Countering Iran's Nuclear Program Act, and – to the best of its knowledge – it has no relations, either directly or indirectly, with enemy states and, accordingly, it has no material exposure with respect to such relations.

Group policy regarding prohibition of money laundering and the finance of terror. A Group policy is updated and approved by the Board of Directors in each year in the matter of prohibition of money laundering and prevention of the finance of terror. The policy is applied with the required modifications to the subsidiary companies and the overseas extensions. The policy document determines the Group's standards with respect to money laundering and the finance of terror as well as principles for management of this risk on a Group basis. The aim of the policy is to verify that the activity of the Bank and of its subsidiary companies is conducted in accordance with all regulatory provisions in the matter of prohibition of money laundering and the finance of terror.

Discount Group's activities with banks acting in the Palestinian Authority. During 2017, different meetings were held between the Bank and the Ministry of Finance, the Ministry of Justice and the Supervisor of Banks with a view of forming tools for the hedge of the risk involved in the provision of services to the banks acting in the Palestinian Authority, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims. During the second quarter of 2018, the Bank received immunity and indemnity letters signed by the State of Israel. In the letter of immunity, the State of Israel undertook not to file an indictment against the Bank, Mercantile Discount Bank, its officers and employees for certain offenses in the area of the prohibition of money laundering and the financing of terror, in connection with the provision of services to the banks acting in the Palestinian Authority during the period from March 28, 2016, until May 31, 2019 ("the period of immunity and indemnity"). In the letter of indemnification, the state of Israel has undertaken to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for the expenses (liability under a peremptory ruling and court costs), which will be incurred by the banks in connection with the conduct of civil proceedings or criminal proceedings (that had not concluded with a conviction), which will be brought against the banks, their officers or their employees, in connection with the provision of services to banks acting in the Palestinian Authority in the period of immunity and indemnity. The aforesaid immunity and indemnity undertaking from the state was subject to reservations and conditions with which the banks need to comply, and which were specified in the letters of immunity and indemnity.

On June 26, 2018, the Supervisor of Banks informed the Bank and MDB that she would not take any enforcement measures in respect of everything relating to the operation of the banks regarding the correspondence services provided by them to which the immunity letter applies. On October 21, 2018, the Government Secretariat published an announcement stating that the government had decided to establish a government company, wholly-owned by the State of Israel, which will provide correspondence services to the Palestinian banking system via the Palestinian Monetary Authority, using the payments array in Israel, with this replacing to a certain extent the service that some of the commercial banks are currently providing, and in light of their having announced their intention to cease providing such service.
On February 20, 2019, the Director-General of the Ministry of Finance contacted the Bank and informed it, inter alia, that the earliest that the government company would be able to provide services to banks operating in the Palestinian Authority territories would be the first half of 2021, with this being a cautious assessment. The Director-General at the Ministry of Finance emphasized the supreme importance of the Bank continuing to provide – during the interim period until the government company begins its operations –the correspondent services to the banks acting in the Palestinian Authority.
On June 30, 2019, the Bank received a letter of indemnity signed by the Accountant General, which extends the indemnification period through February 28, 2021, which later on, was extended until May 31, 2021. Inter alia, the State has undertaken in the letter of indemnity to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for each indemnifiable event. Moreover, the State has also undertaken to indemnify the banks for proceedings that conclude in a mutually agreed fine in the United States (without conviction). The State's undertaking of indemnity is subject to qualifications and terms with which the banks must comply, which are similar to the qualifications and terms prescribed in the original letter of indemnity.
Validity of the letters of indemnification and immunity were extended on July 14, 2021 until July 15, 2022. This on the background of the delay in the beginning of operation of the Government company for correspondence, which had been incorporated but has not yet began providing services to banks operating within areas administered by the Palestinian Authority. In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.

Internal enforcement

The Improvement of Enforcement Procedures at the Israeli Securities Authority (Legislation Amendments) Act, 2011, also grants the Israeli Securities Authority administrative enforcement authority as regards individuals and corporations in respect of violations of the Securities Laws, including the Securities Law, the Regularizing of Engagement in Investment Consultancy Law and the Mutual Investment Trust Law.
The Capital Market Enforcement Intensification Act (Legislation amendments) 2011, grants the Capital Market, Insurance and Savings Commissioner at the Ministry of Finance administrative enquiry powers for the purpose of clarifying the existence of violations of supervisory Acts as regards insurance, provident fund and pension consulting, in order to ensure the implementation and enforcement of supervisory Acts, similarly to the administrative enforcement powers granted to the Israel Securities Authority as stated. The supervisory Acts regarding insurance and provident funds establish the authority of the Commissioner with respect to the supervision and administrative enquiry, as well as regulations regarding the imposition of monetary sanctions. With respect to the Pension Consulting Act, a more limited amendment was established, in that it does not contain regulations for the imposition of monetary sanctions.
The Bank's Management and Board of Directors have approved a comprehensive plan of action, subjected to a timetable, for the formation of an internal enforcement plan, suitable for the Bank and for the Group, having regard to the criteria published by the Israeli Securities Authority on the matter and to the relevant regulatory requirements, taking into consideration to the procedures and processes existing at the Bank. The Bank has completed its preparations in this matter.
The enforcement unit operates within the Risk Management Division.

Conduct risk

Conduct risk is the risk created by violation of fairness, decency and transparency values vis-à-vis the Bank's customers, including forbidden discrimination of customers. The risk might materialize as a result of unfair treatment of customers and the harmful exploitation of the corporation's position. The conduct risk, including fairness, decency, transparency and nondiscrimination values, is an integral part of the definition of compliance risk at the Bank, as integrated in the policy document on the matter. The Bank acts constantly to integrate these values within the array of relevant processes and increases the awareness of its employees to their importance.

Exposure to cross-border risks

General

The Bank operates in an environment of changing global regulation, inter alia, an extra-territorial enforcement activity is conducted with respect to reporting duties and the payment of taxes of customers who manage their accounts outside their country of residence.
In view of this global trend, the Bank is managing the risk involved in maintaining accounts of foreign residents, with an emphasis on the risk that such accounts include funds and assets arising from tax evasions or from income that had not been reported as required to the tax authorities in Israel or abroad in particular.
The Bank is implementing the requirements applying to it following changes in regulation and enforcement, including, inter alia, the Amendment to the Income Tax Ordinance (No. 227), the Amendment to the Anti-Money Laundering Act (No. 16), update of Proper Conduct of Banking Business Directive No. 411 in the matter of "Management of prohibition of money laundering and finance of terror risks", enactment of Income Tax Regulations (Implementation of the FATCA agreement) and Income Tax Regulations (Application of a uniform Standard for reporting and examination of the propriety of information regarding financial accounts), which establish procedures for the automated exchange of information regarding financial accounts (CRS), published by the Organization for Economic Cooperation and Development (OECD).

The Bank's policy with respect to cross-border risks and accounts of foreign residents

The Group policy document regarding cross-border risks management regularizes the aspects relating to the management of cross-border risks at the Bank and at the Group. The policy includes a statement of risk appetite relating to the management of declared funds of customers including foreign resident customers, with an emphasis on the implementation of the FATCA regulations regarding U.S. customers and the implementation of the provisions of CRS regulations for the automatic exchange of information, this in line with the guidelines of the Supervisor of Banks in the matter. The policy document also relates to compliance by Israeli resident customers of the Bank or of its extensions abroad with Israeli tax laws. The policy document details the organizational structure of the factors involved in managing and monitoring the risk. In addition, the policy document refers also to the circular of the Supervisor of Banks in the matter of "management of risks arising from cross-border operations of customers", mentioned below.
Another part of the policy document relates to the management of the risks pertaining to cross-border activity of the Bank and its Israeli subsidiaries with foreign resident customers located overseas, and sometimes even located in Israel, and also pertaining to the Bank's overseas activity, as a result of the application of foreign law to the aforesaid activity, either in accordance with the location of the activity or in accordance with the customer's country of residence. In order to mitigate the exposure to risks resulting from cross-border activity as aforesaid, and to avoid violating the relevant foreign law and the possible implications thereof, the Bank takes steps, from a risk-based perspective, to identify and examine the foreign legal provisions relevant to its activity.
The policy document has been adopted by the relevant subsidiaries in the Group, and is updated once yearly.

The FATCA legislation

Following the FATCA legislation in the U.S. and its adoption by Israeli law, the Bank implements the instructions at the Bank and at the relevant subsidiaries in the Group.
The Income Tax Ordinance was amended in 2016 with the aim of integrating into the Israeli law the implementation of the inter-state FATCA agreement between Israel and the United States dated June 30, 2014, as well as to implement the AEOI/CRS exchange of information agreements of the OECD. Following the amendment of the Ordinance, regulations required by power thereof were also published. Also performed was an indirect amendment of the Anti-Money Laundering Act, 2000.
The Order and the regulations detail the identification, regularization and reporting required regarding existing and new customers, including the duty of informing those customers included in the reports, delivery to the Tax Authorities of information which the Authority is required to deliver to the tax authorities of a foreign country. The Act prohibits use of the said information by the Tax Authority for the purpose of enforcing the tax laws, otherwise than the delivery of which to foreign tax authorities under provisions of the agreement. In addition, the Acts determines monetary sanctions in respect of non-requirement of information, the non-examination thereof as required, or in respect of deficiencies in the complete delivery thereof.
The indirect amendment of the Prohibition of Money Laundering Act, amends the definition of "controlling interest" in accordance with the global standards in this respect.
The FATCA rules require the closing of accounts of entities that do not cooperate with the financial institutions, and which had been opened in the transitional period between the date on which Israel signed the FATCA agreement and the date on which the Regulations entered into effect. A draft Income Tax Regulations was published in July 2019, in the matter of the closing of transitional accounts of US citizens who do not cooperate in providing information.

Exposure to cross-border risks relating to activities of U.S. customers

As detailed below, the Bank is adopting a series of measures for the management of the risk involved in its operations with its U.S. customers.
Providing securities services to American customers. Following the change in the enforcement policy of the U.S. authorities as regards accounts managed outside the U.S., the Bank adopted a policy preventing the granting of securities services to customers connected to the U.S. (new and existing), and prohibiting the use of U.S. communication services for the purpose of granting securities services to persons residing in U.S. and appropriate guidelines have been determined in the matter within the framework of procedures applying to the operations of the Bank and of the relevant subsidiaries in the Group. In addition, this policy has been included in the cross-border risk management policy document, as discussed above.
Within the framework of the management of risks stemming from cross-border activity of customers, the Bank applies restrictions on securities activity also to residents of other foreign countries.

Actions taken by the Bank in respect of operations by U.S. customers

The Bank serves many customers in the ordinary course of business, including customers who are U.S. citizens and/or U.S. residents. As part of its activity, the Bank manages the risks and exposure deriving from operations of the Bank's foreign customers, including customers who are U.S. citizens and U.S. residents, as well as risks deriving from the application of foreign legislation to the Bank's operations. As stated, management of the exposures and risks is conducted by means of policy, procedures and controls.
Within the framework of the Bank's policy and procedures, detailed instructions have been given to Bank employees as regards everything relating to transactions involving accounts of U.S. customers, which might expose the Bank to compliance risks. In this respect, the Bank does not permit its employees to hold meetings with customers in the U.S., prohibits the providing of tax advisory services to U.S. customers and advising customers on how to evade the payment of taxes, prohibits referring customers for the purpose of obtaining advice the aim of which is tax evasion and does not permit any assistance leading to the violation of any law.

As stated above, the Bank applies the FATCA legislation, as adopted in Israel within the framework of the legislation and regulations mentioned above. Following the application of the FATCA legislation, the Bank conducts identification and regulation processes of existing customers who had been identified as U.S. Persons in accordance with the time schedule stated in the legislation, requires from its new U.S. Persons to sign the W-9 Form and a declaration of their compliance with the reporting duties, and also the waiver of confidentiality in respect thereof.

Circular of the Supervisor of Banks in the matter of "management of risks arising from cross-border operations of customers"

The Supervisor of Bank issued in March 2015, a circular in the matter of "management of risks arising from cross-border operations of customers" (attached in 2017 as an Appendix to Proper Conduct of Banking Business Directive No. 411 in the matter of Management of Anti-Money Laundering and Countering Financing of Terrorism Risks). The circular contains various guidelines to banking corporations with respect to the handling of foreign residents with a risk based approach and details of actions that banks have to take in order to reduce exposure to compliance risks originating in cross border operations.
The circular relates, inter alia, to obtaining a declaration regarding the reporting of income by the customer in accordance with the legislation applying to him, and obtaining the waiver of confidentiality with respect to foreign authorities. Accordingly, the Bank acted to regulate the relevant customer population and continues to manage the risks in this field.

Implementation of automatic exchange of information in accordance with the CRS of the OECD

In February 2014, the OECD published a document incorporating an agreement and standards for the automatic exchange of information (AEOI) by financial institutions, operating in countries which would join the agreement, regarding accounts managed by them. This document determined a reporting standard (Common Reporting Standard – CRS), and defined processes for the identification and classification of new and existing customers on the basis of residency, as well as the duty and contents of reporting.
Since the publication, many countries, both within and without the OECD, have committed to adopt the CRS, in order to participate in the automatic exchange of information. In October 2014, the Government of Israel announced that the State of Israel would adopt the CRS and in 2016, the Income Tax Ordinance was amended accordingly.
The Bank has applied the changes in the Israeli laws and acted in accordance with the directives of the Supervisor of Banks in the matter. In this respect, inter alia, a declaration has been added to the account opening documents, with respect to the countries of residence of the customer, which includes also a waiver regarding confidentiality with respect to foreign tax authorities, and restrictions have been imposed on the activities of customers who do not cooperate with the Bank in this matter. The Bank is implementing the automatic exchange of information in accordance with the Income Tax Regulations (the application of a common reporting standard and examination of the appropriateness of the information regarding financial accounts), 2019, which were published on February 6, 2019. The Bank continues the implementation of the CRS, while integrating the requirements arising from the legislation and regulation.

A qualified intermediary (QI) agreement for the purpose of providing U.S. securities services

In the year 2002, the Bank entered into a qualified intermediary agreement with the U.S. tax authorities, for the purpose of providing U.S. securities services ("the QI agreement") as a "non-withholding QI". For this purpose, the Bank has entered into an agreement with a factor serving as the withholding QI on its behalf.
A new QI agreement was published in July 2014, within the framework of which commitments were added and updated with respect to implementing and complying the terms of the agreement. In March 2017, the Bank completed the renewal of the new QI agreement with the IRS. The Bank is acting towards the implementation of the QI agreement, including maintaining and implementing a compliance plan.

The Bank is preparing for the performance during 2021 of a periodic review and certification by a Responsible Officer with respect to the QI and IRS issues.

Reduction in the international presence

As part of the implementation of the strategic plan, the Group has reduced its international presence, thus reducing also exposures in risk centers.
In this framework, the Group completed in October 2015 the sale of the assets and liabilities of the subsidiary of IDB Bank in Uruguay. The Cayman Branch of IDB Bank was closed down at the end of 2015, and the closure of the Bank's branch in England was completed in January 2016. In addition, on November 23, 2015, an agreement was signed for the sale of the customer activities of IDB (Swiss) Bank in Switzerland. In accordance with this agreement, the customers of IDB (Swiss) Bank in Switzerland were transferred to the purchasing bank, following which, the supervision by the supervisory authority in Switzerland (FINMA) came to an end.
As from December 20, 2016 IDB (Swiss) Bank – in liquidation discontinued all banking activities and the Bank acted to liquidate the corporation, and this in accordance with an approval of the Swiss Financial Market Supervisory Authority (FINMA).
On November 15, 2018, an approval was received from the Commercial Register of Geneva for the removal of the company, thus concluding the company's liquidation process.

Foreign resident customers

In the past year and a half, the Bank had examined the activity of the Group in the matter of cross-border risk management with respect to foreign resident customers, as well as its policy in the matter. Following the said examination, the policy has been updated in a way that reduces the types of banking services granted by the Bank to residents of different countries, this, in a risk-based approach.
Moreover, the Bank had examined the activity of the Group with foreign brokers, and following this examination the Bank's credit policy was updated, by adding reference to means of hedging and monitoring of the risk in relations to such operations.

Strategic risk

Changes in the Group's business and regulatory environment, digital developments alongside changes in customer preferences and the promotion of efficiency measures, create challenges to the operating model of traditional banking and require the management of the strategic risk, in order to maintain the competitive capabilities of the Group and its position as a leading player in the local banking industry.
The strategic risk is a business risk stemming from the business activity and from the competitive environment in which the Group operates (including regulation), in acting (such as wrong business decisions or inadequate application) or omission (such as lack of response to changes in competition), which, if realized, may significantly damage profitability, equity capital and/or the long-term positioning of the Discount Group, and prevent the Group from maintaining its position in the banking industry.
The Head of the Planning, Strategy and Finance Division serves as the Group's strategic risk manager and has the supreme responsibility for the management of these risks at the Bank and at the Group. His professional guidelines are binding on the companies in the Discount Group. The risk manager is responsible for the identification, assessment, monitoring, control and reporting of the strategic risk profile and for the adoption of measures for mitigating the risks in the Group, this in accordance with the strategy, the risk management policy and the risk appetite that were outlined by the Board of Directors.
The Group operates according to the multiannual strategic plan and the supportive computerization plan, which is revised annually with a view of providing a response to identified trends in the competitive environment in Israel and abroad. In each year, prior to the process of preparing the work plans, the Bank conducts a review of the local and global competition environment, and takes decisions regarding the initiation of new projects in support of competition and developing innovation. This, alongside the continuing progress made with respect to the Group's

strategic plan, within the framework of which, three central layers have been defined: accelerated evolution of traditional banking, revolution in banking by means of pioneering innovation and maximizing the value of the Group. In order to support the realization of the plan, an administrative structure, method and tools have been defined, which accompany the implementation and measurement process, which combine risk management aspects as an integral part of the planning and implementation processes, including the integration of risk based performance measurement at the various management levels (BSC, KPI, start off and remuneration plans, and more).
The monitoring and control of the progress at the Group level is made in the implementation of the plan is performed by designated administration acting in this matter, and by a current monitoring and follow-up of Management.
The risk management division methodologically accompanies and guides the risk manager and is also a party of accompanying strategic and central projects from inception, in order to verify the integration of risk management considerations as part of the business management, as well as establish independent assessments regarding the effect of the realization of the different plans on the risk profile as well as formation of recommendations regarding the risk appetite.

Reputation risk

The reputation risk comprises the risk of damage to the business of the Bank as a result of damage to its image following various publications, true or false. A negative image may arise as a result of a large number of factors, jointly or severally (wrong business decisions, strike, events in the competitive environment, embezzlement, damage to profitability or to capital adequacy, a material computer failure, material violation events of compliance and money laundering, etc.). The reputation risk has a considerable damage potential due to the characteristics of the banking sector and the importance of maintaining the confidence of depositors, borrowers, investors and the local and international banking industry.
Reputation risk is typified by two main risk factors: a risk of the first order (pure reputation risk) stemming from a factor outside the Bank, such as rating agencies, regulatory bodies, the media and/or a reputation event which does not stem from the realization of another risk. And the second order risk, stemming from the realization of other risks, such as: operational risk, compliance and money laundering risks, liquidity risk, credit, business continuity, technologies and information, etc.
Management and control of the reputation risk is complicated, as it is affected by all areas of operation of the Bank and the Group and may stem from many risk centers, direct or indirect. Due to the importance of this risk and its complexity, the reputation risk is being managed by the most senior echelons in the organization, and accordingly, the Bank's President & CEO bears supreme responsibility for the management of the risk in times of crisis. The Head of the Planning, Strategy and Finance Division is responsible for the current management of the risk.
The responsibility for the current management of the reputation risk applies separately to the Bank's Management and to each Management member with respect to the division under his responsibility, including with respect to subsidiary companies where he serves as the responsible managerial factor. Additional parties who support the management of the risk are: the Bank's spokesperson, the manager of investor relations, manager of the strategy unit, the manager of the marketing and advertising department, the Public Complaints Commissioner, the Bank's economist, and others.
The Chief Risk Officer is responsible for the methodological guidance regarding the risk management field and for the provision of tools supporting the risk management, including the periodic analysis of changes in the risk profile, as part of the quarterly risk document.
A periodic reputation group forum takes place within the framework of the risk management. The forum discusses various issues, both internal and external, which might affect the reputation risk. Furthermore, different indicators have been defined, supporting the monitoring of changes in exposure in various risk areas that might have an effect upon the reputation risk. This, alongside the continuing activity of the Group in managing the discourse with customers on the social networks and the continuation of the monitoring of the media.

Model risk

Model risk is the risk that decision makers would rely on results of models based on incorrect assumptions or on financial data that is incorrect or inappropriate or not suitable for the business and economic environment, etc. Furthermore, sometimes the results of the model are too broadly interpreted. Such phenomenon may have implications on the profitability of the Bank and the Group, on the appropriateness of the financial statements and reliability of the data presented therein, as well as adversely affect reputation and more.
In view of the growing use of models made by the Bank, and whereas model development processes and the use made of them are complex processes that are prone to errors, management of the risk is conducted in accordance with the group policy, with designated methodology and within the framework of the risk appetite determined by the Board of Directors.
The policy defines the framework of governance, the duties and authority of the functions involved in the management of the risk, separation of duties and interface between the different factors, a monitoring and reporting framework and additional discerning points regarding aspects of model development processes, such as: aspects of privacy protection and fairness, integration of indicators and triggers for the identification of crisis situations. The risk management processes integrated in the Bank and in the Group, allow evaluation of the profile of the model risk of the Bank and Group companies.
Responsibility for the current management of the model risk lies with each member of Management in respect of the models relevant to his field of operation, and responsibility for the management of model risks and validation of models is managed within the framework of a designated unit for the management of model risks operating in the second line.
Validation products are discussed by the Validation Committee (a Management committee), headed by the Chief Risk Officer, which is responsible for approval of models exposing the Bank to risk.
As part of the examination of the impact of the Corona crisis on models, the Bank and the Group had conducted an in-depth process for the identification of the effects of the crisis on the different models, including intensification of the process regarding material models and modifications made within the framework of risk management, as part of the process of drawing conclusions made on the background of the crisis.

Remuneration

General. The Bank's remuneration policy is subject to the provisions of the Companies Act, of Proper Conduct of Banking Business Directive No. 301A (hereinafter: "Directive 301A") as amended from time to time and to the Remuneration Act. The Proper Conduct of Banking Business Directive No. 301A, in the matter of "Remuneration policy of a banking corporation", states rules designed to ensure that remuneration arrangements in practice at a banking corporation would be consistent with risk management frameworks and with the long-term goals of the banking corporation.
The Remuneration of Officers of Financial Corporations (Special approval and the non-deductibility tax wise of exceptional remuneration) Act, 2016, (hereinafter: "the Remuneration Act") imposes limitations on the amounts of remuneration payable to officers and employees of financial corporations.

Qualitative aspects

The Bank's General Meeting of Shareholders has recently approved in March 2020, the remuneration policy for the Bank's officers, which, inter alia, regulates the annual awards to officers for the years 2020 to 2022, and which replaces the remuneration policy for the Bank's officers that had been approved by the General Meeting in November 2016 (and provisionally extended to May 8, 2020)(hereinafter: "Remuneration policy for Officers". Furthermore, the

Bank's Board of Directors has recently approved in March 2020, the remuneration policy regarding all employees of the Bank, including central employees, as well as principles for the Group remuneration policy (hereinafter: "the remuneration policy"), the remuneration policy for officers being an Appendix thereof.
The remuneration policy for Officers determines principals concerning the fixed remuneration and the arrangements for employment-termination of officers, and also principals for variable remuneration for officers. The remuneration policy is compatible with Directive 301A and includes instructions regarding the compatibility of the scope of remuneration to officers of the Bank with the provisions of the Remuneration Act. For details regarding the remuneration policy for officers see the immediate report dated February 24, 2020 (Ref. No. 2020-01-015952; hereinafter: "the remuneration policy "). The information in the report is presented here by way of reference.
In accordance with the remuneration policy for officers, specific remuneration plans for officers exist at the Bank. For details regarding these plans see Note 23 E and G, and Note 35 F to the Bank's financial Statements as of December 31, 2021.

A. Information relating to the bodies supervising remuneration

The body supervising remuneration. The remuneration committee of the Board of Directors is the main body supervising remuneration. In accordance with the remuneration policy, additional bodies in the Bank have rolls regarding overseeing the subject of remuneration, including the Human Resources Division, Planning, Atrategy and finance Division, Risk Management Division, Legal Advisory Division and Internal Audit Division.
Composition of the committee[3]. Mr. Aharon Abramovich (external Director) heads the committee, and its members are: Mr. Baruch Lederman (external Director), Ms. Sigal Barmak (external Director) and Ms. Miri Katz (External director according to Proper Conduct of Banking Business Directive No. 301).
Duties of the committee and its authority. The committee is imparted the duties and authorities as obligated under Sections 118A and 118B of the Companies Act and Proper Conduct of Banking Business Directives of the Supervisor of Banks including Directives No. 301 and No. 301A.
Details with regard to external consultants employed by the Bank. During the course of formulating the remuneration policy and the individual remuneration plans for officers, the Remuneration Committee was assisted by external consultants, as follows: the law firm of Gross & Co. and the firm of Cognum Financial Consulting Ltd. ("Cognum") (formerly, Prof. Itzhak Swary Ltd.). The aforementioned consultants assist the Bank in remuneration matters on an ongoing basis, as necessary. Cognum also acts as a control function over the payment of the awards.
Application of the remuneration policy. The remuneration policy sets forth principles for the remuneration of officers of the Bank as well as for the remuneration for all Bank employees, while placing emphasis on those employees whose activities are likely to have a material effect on the Bank's risk profile.
As part of the remuneration policy, principles are also set forth for a Group remuneration policy, which will apply to the major corporations under the control of the Discount Group whose activities are in Israel (Israel Credit Cards Ltd.; Discount Mercantile Bank Ltd; Israel Discount Capital Markets and Investments Ltd.). With regard to controlled corporations that are overseas companies, taking heed of the fact that their activities are conducted overseas and that they are not obligated to draw up a remuneration policy pursuant to Directive 301A, the remuneration policy provides that separate principles will be prescribed that will apply to the remuneration at these controlled corporations, in light of the foreign regulations to which they are subject and the fact that they operate in a labor market that has different characteristics.
Description of classes of employees considered to be senior officers and other key employees[4]
The Company's senior officers, as defined in Directive 301A, include the following employees: the directors; the President & CEO; members of the Bank's Management; the Internal Auditor; the Compliance and Prohibition of Money Laundering Officer; and managers who report directly to the President & CEO.
Other key employees include (1) Managers, who are not senior Officers, reporting directly to the President & CEO,

3 Mr. Reuven Adler and Prof. Shalom Hochman terminated their office as members of the Committee on August 1, 2021, together with the termination of their office as Directors. Ms. Sigal Barmak took office on August 1, 2021, as member of the Committee, together with the beginning of her office as Director. Dr. Doron Avital was appointed as member of the Committee on November 21, 2021.

4 A review of the list of key employees is made in each year. One key employee (who is not a senior Officer) was mapped in 2021. This employee is not included in the quantitative report for the 2020.

and employees, whose work might have a significant effect upon the risk profile of the Bank and whose remuneration might lead to acceptance of excessive risk, on condition that they do not fall under the exceptions stated in Section (b) of the definition of "key employees" in Directive 301A, (2) employees the scope of their remuneration in the recent year or in the year preceding it exceeded the amount of NIS 1.5 million. The policy and remuneration procedures in the Group, promote attainment of the Bank's goals and integration of an effective risk management culture, and do not encourage the assumption of excess risks or risks exceeding the defined risk appetite.
The quantitative data, herein and hereunder, include the Chairmen of the Boards officiating in the Group, to the extent that they had been defined as active Chairmen, and they do not include Directors.

Number of senior officers and other key employees in the Discount Group in 2020-2021

	Year 2021		Year 2020	
	Senior officers	Other key employees	Senior officers	Other key employees
Total at the Bank[(1)]	18	9	16	8
Total at the Group[(1)]	83	12	74	10

Footnote:
(1) Including senior officers and other key employees who held office during a part of the year.

B. Information relating to the planning and structure of the remuneration processes

The principal features and goals of the remuneration plan. The remuneration policy is intended to result in maintaining a proper balance between the overall organizational strategy of the Bank, its organizational culture, its goals and the work plans, as determined from time to time, in accordance with the risk appetite, the risk management and the control environment. This, alongside with constructing a system of suitable incentives to recruit and retain a high standard of human capital, including quality managerial manpower for the long-term, which the Bank requires for its further development and business success. Within the framework of its considerations towards the approval of the remuneration policy, the Bank also took into account the provisions of the Remuneration Act.
The remuneration policy will also enable incentives (by way of addition or reduction of the awards) to be provided for the purpose of attaining general goals of the Bank in the field of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures.
Remuneration of employees engaged in risk management control and audit. The variable remuneration of employees engaged in risk management, control and audit is determined in accordance with standards that take into account the importance and sensitivity of the duties that these functions are required to perform, and are not dependent of the business results of the business fields the activity of which they monitor, audit or supervise. The ratio of the fixed remuneration to the variable remuneration of these functions tends in favor of the fixed remuneration, including in relation to officers who do not fulfill supervisory and control functions. The Bank will be entitled to determine that the part of the annual award attributed to Group indices shall be lower for the supervisory and control functions in comparison with that of other officers.
The Risk Management Division is combined for the purpose of scoring the assessment of employees responsible for risk management, control and audit in the various units in the first line of defense, which are under its professional guidance.
Notwithstanding, as a general rule, employees engaged in risk management, control and audit, except for officers, are subject to the remuneration arrangements that apply to all the Bank's employees (in accordance with the type of employment of the aforesaid employee).
For further details regarding the unique provisions that apply to the variable remuneration of officers engaged in risk management, control and audit, see item 4.4 of the remuneration policy for officers.

C. Description of the ways in which existing and future risks are taken into account in the remuneration process

In the framework of determining the remuneration mechanism, the Bank verifies that the determined mechanism matches the Bank's risk appetite and does not encourage excessive risks acceptance, in a manner that creates a balanced incentive structure between the components of the fixed remuneration and the components of the variable remuneration as well as consistent with the Bank's risk management framework and with its long-term goals. The remuneration policy takes into consideration the Bank's principal risks.

Within this framework, it has been prescribed that the remuneration plans for the payment of annual awards to officers will include a requirement to attain a threshold condition, which will give weightings to the Bank's long-term policy, including its risk management policy, which will include until 2022 (including), inter alia:

- The ratio of return on capital in the year of award shall not be lower than 7%.
- The comprehensive capital adequacy ratio and the Common Equity Tier 1 ratio shall not fall below the minimum ratios determined in directives of the Supervisor of Banks.
- Attaining a threshold score on the qualitative index, which will include the officer's contribution to the implementation of processes in corporate governance fields, attaining the Bank's overall goals in the fields of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures.

The size of the annual awards for officers will be determined based, inter alia, on the following components:

(1) Group indices, which include return on capital and efficiency ratio.

(2) Personal indices, which will include, inter alia, the Bank's attainment in the fields of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures.

(3) A qualitative personal award, which will be distributed at the discretion of the President & CEO from a budget for discretionary awards and this even if the minimum conditions did not materialize in that year. As part of the process of distributing the budget, weight will also be given, inter alia, to the Bank's attainment in the fields of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures.

It is noted that the risk management functions at the Bank assisted in the formation of the remuneration mechanisms in order to ensure that the indices used as part of the remuneration mechanisms are consistent with the Bank's risk management goals, and with the framework of the policy and the risk appetite, thereby ensuring that the remuneration mechanisms do not encourage the assumption of excess risks.

Payment of deferred remuneration components deferred from prior years will be made on condition that the Bank did not record a loss in its consolidated financial statements for the award year preceding the date of payment of the deferred award.

It has been prescribed that, for the purpose of adjusting the variable remuneration for the different kinds of risk to which the Bank is exposed and for the Bank's results, payment of an annual award to employees at the Bank (including other key employees who are not officers) will also generally be contingent, at the least, on attaining the threshold conditions for the annual award that apply to officers of the Bank, as detailed above. Notwithstanding, it has been clarified that attainment of the aforesaid threshold condition will not necessarily obligate the Bank to pay awards to employees.

Plans for the granting of additional variable remuneration, shall be formed in conjunction with the risk management and control functions. Risk-based indices will be incorporated in the plans, as will indices relating to the Bank's general targets in the fields of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures, as indices that drive performance and/or as indices that constrain it.

D. Linkage between performance during the performance measurement period and the level of remuneration

With regard to the employees in general, subject to attaining the threshold condition, an awards bundle will be established that will apply to all the employees (except with regard to officers and employees for whom specific remuneration plans have been and/or will be prescribed). The business results of the Bank before its share in the results of investee companies (solo) and its contribution to the business results of the Discount Group will also be taken into account in determining the awards bundle. In addition, and in order that the size of the variable component does not limit the Bank's ability to maintain the robustness of its capital at all times, and also in light of the Bank's policy and desire to create value for the Bank's shareholders, the annual award basket for all the Bank's employees (including officers and other key employees) with respect to an award year, subject to attaining the threshold condition, shall not exceed 12.5% – of the net profit attributed to the Bank's shareholders, according to the consolidated financial statements for the year of the award, with the elimination of awards granted to the Bank's employees and the related tax effect.

It should be noted that there are employees, including employees who are not key employees, whose variable remuneration differs from the aforementioned variable remuneration (such as employees in the Bank's trading rooms).

Effect of performance indices on variable remuneration amounts. The relevant targets in each of the group indices are based on targets to be set by the Board of Directors in accordance with the work plans. For each index, a target goal is set in accordance with the goal approved for that index, in accordance with which minimum and maximum goals will be calculated for that index. Attainment of the minimum goal, target goal and the maximum goal in a particular award year will confer entitlement to awards at set percentages of the award cap, which is calculated according to the results of the Group indices and the personal indices. Determination of the risk management goals is made in coordination with the risk management division.

Award for special contribution. The remuneration policy enables the granting to officers an award in respect of special contribution limited in scope. For additional details see Section 4.8 of the remuneration policy to officers.

Discretionary awards budget. In accordance with the remuneration policy, the Bank's President & CEO will be given a discretionary awards budget even in the event of the threshold terms not being met. For further details, see Section 4.9 of the remuneration policy for officers.

Adjustment of the variable remuneration. The Board of Directors is entitled for special reasons to reduce awards for all officers or to a certain officer, following receipt of the Remuneration Committee's recommendation.

E. Adjustment of the remuneration so as to take account of longer-term performance

The Bank's policy includes deferment and spreading arrangements for variable remuneration, aimed at linking the variable remuneration with the Bank's long-term performance, including adjusting the remuneration in the event of weak performance.

Spreading annual awards. The remuneration plan for officers includes a mechanism for spreading the annual awards, as follows:

Half the remuneration amount will be paid in cash, proximately after publication of the Bank's financial statements for the award year.

The other half of the aforesaid remuneration will be deferred and spread over the three following years, and will be paid in three equal installments.

The payment of a deferred award portion is conditional upon the Bank not recording a loss in its consolidated financial statements for the award year preceding the date of payment of the deferred award portion.

Notwithstanding the aforesaid, with respect to whoever the remuneration of whom complies with the provisions of the Remuneration Act regarding the maximum amount of remuneration, if, in any award year, the total variable remuneration to which an officer is entitled with respect to that year does not exceed 40% of the fixed remuneration for that officer, the full amount of the awards will be paid in cash, without applying the aforesaid spreading mechanism.

The aforesaid spreading arrangements shall apply also to variable remuneration of another key employee who is not an officer. It is noted, that there are key employees, who are not officers, and that in respect of whom specific remuneration plans have been set, and that the terms of payment of the deferred award in their respect differ from those discussed above.

Spreading the variable retirement terms. Remunerations in respect of the termination of employment of officers, which exceed the amounts prescribed by law or in the employment terms of all the Bank's employees, or a share of an adaptation award that exceeds the equivalent of three monthly salaries (with the addition of related terms) constitute "variable retirement terms". Half of the variable retirement terms will be deferred and spread over three years. If the quarterly or annual financial statements published proximately before the date of payment, show a material deviation from the minimum capital adequacy and Total Common Equity Tier 1 ratios determined by directives of the Supervisor of Banks, then the payment of the deferred retirement terms installment will be deferred by 12 months. In the case that the material deviation from the minimum total capital adequacy and Common Equity Tier 1 ratios, as stated, continues, then the portion of the deferred retirement terms shall be cancelled and shall not be paid.

Remuneration clawback arrangements. A mechanism has been determined in the remuneration policy for the refund of remuneration, whereby, if it is found (after paying the remuneration) that the calculation, from which the remuneration amount was derived, was based on incorrect financial data, and the error caused the financial statements to be restated – the remuneration will be recalculated on the basis of the revised financial data. In addition, the remuneration policy includes a mechanism for the reimbursement of the variable remuneration paid in exceptional circumstances, including circumstances in which the key employee had taken part in an exceptional damage caused to the Bank and this in accordance with Directive 301A. See also item 12 of the officers' remuneration policy.

F. Variable remuneration

The proper ratio between the maximum variable remuneration and the fixed remuneration. For details regarding the annual award caps for officers, see items 4.10 and 7 of the officers' remuneration policy. In accordance with Directive 301A, the rate of variable remuneration to be paid in a calendar year to an officer, except for a signing award, is not to exceed 100% of the fixed remuneration paid to that officer with respect to the same calendar year.

The discretional variable remuneration granted to a key employee who is not an Officer, shall not exceed three monthly salaries of that employee. The total variable remuneration granted to a key employee who is not an Officer, may exceed three monthly salaries, as stated, to the extent that measurable criteria had been determined in advance, in accordance with Directive 301A, and up to a total amount of six monthly salaries of that employee, while granting proper consideration to risk management aspects. It is noted that, there are key employees who are not Officers that in respect of whom specific remuneration plans have been set, and that the maximum amount of award in their respect exceeds the said maximum amounts but does not exceed 100% of the fixed remuneration paid to them in respect of that calendar year.

Types of variable remuneration. As of date of publication of this Report, the remuneration arrangements at the Bank include cash variable remuneration only. Notwithstanding this, the remuneration policy for Officers states that the Bank would be entitled to approve or act in accordance with plans for the granting of capital remuneration to Officers of the Bank, the value of which is not to exceed an amount of four monthly salaries per year, as detailed in Section 8.3 of the remuneration policy for Officers, subject to the maximum amounts of remuneration according to Section 7 of the remuneration policy for Officers. Moreover, it has been determined that in order to increase the identity of interests of employees of the Bank and of its shareholders, the Bank may initiate plans for the granting of capital remuneration to employees who are not officers.

Quantitative aspects

General. In the following Tables, senior officers and other key employees include senior officers and other key employees in subsidiaries. The amounts of the remuneration do not include payroll tax.

Total value of remuneration granted during the year

	Year 2021		Year 2020	
	Senior officers	Other key employees	Senior officers	Other key employees
	In NIS millions			
1. Total fixed remuneration	**106.9**	**8.1**	**102.1**	**7.4**
Of which:				
Cash based - Not deferred[1]	[2]106.2	8.1	[2]101.6	7.4
Shares or other share-based instruments - Not deferred	0.7	-	0.5	-
2. Total variable remuneration	**45.7**	**4.2**	**17.4**	**3.7**
Of which:				
Cash based - Not deferred[3]	[2]35.8	2.5	[2]12.3	2.3
Cash based - Deferred[4]	9.9	1.7	5.1	1.4
Total remuneration	**152.6**	**12.3**	**119.5**	**11.1**
Number of employees receiving the remuneration				
1. Fixed remuneration	**83**	**12**	**74**	**10**
2. Variable remuneration	**77**	**11**	**44**	**10**

For notes to the table see after the table "Deferred remuneration and retained remuneration".

Special payments granted or paid during the year

	Year 2021				Year 2020			
	Senior officers		Other key employees		Senior officers		Other key employees	
	Number of employees	Total remuneration In NIS millions	Number of employees	Total remuneration In NIS millions	Number of employees	Total remuneration In NIS millions	Number of employees	Total remuneration In NIS millions
Guaranteed bonuses	2	0.1	-	-	5	0.3	-	-
Signing bonuses	1	0.2	-	-	1	0.2	1	0.3
Severance payments paid[5][6]	9	10.6	-	-	3	3.4	-	-

For notes to the table see after the table "Deferred remuneration and retained remuneration".

Deferred remuneration and retained remuneration

	Total unpaid amount of outstanding deferred remuneration[(6)(7)]	Of which: Total unpaid amount of outstanding deferred remuneration and retained remuneration exposed to ex-post adjustments, explicit and/or implicit	Total amount of amendments made during the year due to ex-post implicit adjustments	Total amount of deferred remuneration paid-out during the year[(6)]
	In NIS millions			
	Year 2021			
Senior officers				
Cash	18.7	18.7	(0.2)	4.9
Other key employees				
Cash	4.0	4.0	-	0.7
Total remuneration	**22.7**	**22.7**	**(0.2)**	**5.6**
	Year 2020			
Senior officers				
Cash	14.6	14.6	-	5.7
Other key employees				
Cash	2.9	2.9	-	0.7
Total remuneration	**17.5**	**17.5**	**-**	**6.4**

Footnotes:
(1) Salary including related expenses and employer provisions, including provision in respect of an adaptation award for the first three months following the retirement of the employee.
(2) Including remuneration granted to employees in respect of a period preceding the date of their appointment as senior officers.
(3) Including the component of the awards granted in respect of the reporting year which is not deferred and variable retirement terms which are not subject to attaining predefined criteria.
(4) Including deferred installments of awards in respect of the reporting year, a provision for which was made in full, and variable retirement terms which include provision in respect of an adaptation award for the period over the first three months following the retirement of the employee/non-compete award, which are contingent on attaining predefined criteria.
(5) Including actual payments in respect of severance pay, adaptation award and payment replacing prior notice (the provision in respect of the said payments was generally made on an accrual basis).
(6) Including remuneration in respect of senior officers and other key employees who had retired from office in prior years.
(7) Including deferred installments of awards paid not proximate to the date they were awarded and are contingent on attaining predefined criteria and the balance of variable retirement terms not yet paid which include provision in respect of an adaptation award for the period over the first three months following the retirement of the employee/non-compete award, which are contingent on attaining predefined criteria.

Remuneration to senior officers

For details regarding remuneration to senior officers, in accordance with the provisions of Regulations 21 and 22 of the Securities Regulations (Periodic and Immediate Reports), 1970, see under “Corporate governance, audit and additional details of the banking corporation’s business and the management thereof”.

Shaul Kobrinsky	Uri Levin	Amir Rozin	March 8, 2022
Chairman of the Board of Directors	President & Chief Executive Officer	Deputy Head of the Risk Management Division, Acting Head of Division	

Addendums

Addendum A – Linkages between the financial statements and regulatory amounts

Differences between the accounting consolidation basis and the regulatory consolidation basis and the mapping of the financial statements in accordance with regulatory risk categories (LI1)

		Balance sheet balances of items which:				
	Balance sheet balances in accordance with the scope of regulatory consolidation	Subject to the credit risk framework	Subject to the Securitization framework	Subject to the counterparty credit risk framework	Subject to the market risk framework	Not subject to capital requirements or subject to deductions from the capital base
	in NIS millions					
	31.12.2021					
Assets						
Cash and deposits with banks	59,638	59,638	-	-	-	-
Securities	43,869	41,749	1,158	1,344	962	-
Securities borrowed or purchased under resale agreements	1,207	-	-	1,207	-	-
Credit to the public	216,196	211,864	-	4,332	-	-
Allowance for credit losses	(3,040)	(3,018)	-	(22)	-	2,452
Credit to the public, net	213,156	208,846	-	4,310	-	-
Credit to Governments	2,664	2,664	-	-	-	-
Investments in affiliated companies	462	430	-	-	-	(32)
Buildings and equipment	3,401	3,401	-	-	-	-
Intangible assets and goodwill	163	-	-	-	-	(163)
Assets in respect of derivative instruments	5,522	-	-	5,522	-	-
Other assets	5,006	5,006	-	-	-	-
Total assets	**335,088**	**321,734**	**1,158**	**12,383**	**962**	**2,257**
Liabilities						
Deposits from the public	260,907	-	-	-	-	260,907
Deposits from banks	12,534	-	-	-	-	12,534
Deposits from the Government	346	-	-	-	-	346
Securities loaned or sold under repurchase agreements	-	-	-	-	-	-
Bonds and Subordinated debt notes	15,071	-	-	-	-	15,071
Liabilities in respect of derivative instruments	6,323	-	-	6,323	-	-
Other liabilities	17,759	-	-	-	-	17,759
Total liabilities	**312,940**	**-**	**-**	**6,323**	**-**	**306,617**

Differences between the accounting consolidation basis and the regulatory consolidation basis and the mapping of the financial statements in accordance with regulatory risk categories (LI1) (continued)

		Balance sheet balances of items which:				
	Balance sheet balances in accordance with the scope of regulatory consolidation	Subject to the credit risk framework	Subject to Securitization framework	Subject to the counterparty credit risk framework	Subject to the market risk framework	Not subject to capital requirements or subject to deductions from the capital base
	in NIS millions					
	31.12.2021					
	31.12.2020					
Assets						
Cash and deposits with banks	42,936	42,936	-	-	-	-
Securities	42,785	40,603	1,111	809	1,071	-
Securities borrowed or purchased under resale agreements	1,074	-	-	1,074	-	-
Credit to the public	192,479	189,778	-	2,701	-	-
Allowance for credit losses	(3,761)	(3,747)	-	(14)	-	2,188
Credit to the public, net	188,718	186,031	-	2,687	-	-
Credit to Governments	3,473	3,473	-	-	-	-
Investments in affiliated companies	348	305	-	-	-	(43)
Buildings and equipment	2,995	2,995	-	-	-	-
Intangible assets and goodwill	164	-	-	-	-	(164)
Assets in respect of derivative instruments	6,400	-	-	6,400	-	-
Other assets	5,076	5,076	-	-	-	-
Total assets	**293,969**	**281,419**	**1,111**	**10,970**	**1,071**	**1,981**
Liabilities						
Deposits from the public	226,118	-	-	-	-	226,118
Deposits from banks	13,107	-	-	-	-	13,107
Deposits from the Government	344	-	-	-	-	344
Securities loaned or sold under repurchase agreements	161	-	-	-	-	161
Bonds and Subordinated debt notes	10,201	-	-	-	-	10,201
Liabilities in respect of derivative instruments	7,365	-	-	7,365	-	-
Other liabilities	16,946	-	-	-	-	16,946
Total liabilities	**274,242**	**-**	**-**	**7,365**	**-**	**266,877**

Major sources for differences between sums of regulatory exposure and balances in the financial statements (II2)

		Items to which the following apply:			
	Total	Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
	in NIS millions				
	31.12.2021				
Amount of balance sheet balance of assets, in accordance with the scope of regulatory consolidation (according to the LI1 disclosure format)	336,237	321,734	1,158	12,383	962
Amount of balance sheet balance of assets, in accordance with the scope of regulatory consolidation (according to the LI1 disclosure format)	-	-	-	-	-
Net total amount in accordance with the scope of regulatory consolidation	336,237	321,734	1,158	12,383	962
Off-balance sheet amounts	-	30,797	-	313	-
Differences due to different netting rules, other than those already included in row 2	(4,539)	-	-	(4,539)	-
Differences due to consideration of provisions	2,452	2,452	-	-	-
Adjustments in respect of SFT	244	-	-	244	-
Addition of future potential exposure in respect of derivatives	4,354	-	-	4,354	-
Other adjustments	1,396	1,396	-	-	-
Exposure amounts considered for regulatory purposes(1)	**340,144**	**356,379**	**1,158**	**12,755**	**962**
	31.12.2020				
Amount of balance sheet balance of assets, in accordance with the scope of regulatory consolidation (according to the LI1 disclosure format)	294,571	281,419	1,111	10,970	1,071
Amount of balance sheet balance of assets, in accordance with the scope of regulatory consolidation (according to the LI1 disclosure format)	-	-	-	-	-
Net total amount in accordance with the scope of regulatory consolidation	294,571	281,419	1,111	10,970	1,071
Off-balance sheet amounts	101,476	25,159	-	181	-
Differences due to different netting rules, other than those already included in row 2	(5,619)	-	-	(5,619)	-
Differences due to consideration of provisions	2,188	2,188	-	-	-
Adjustments in respect of SFT	173	-	-	173	-
Addition of future potential exposure in respect of derivatives	3,561	-	-	3,561	-
Other adjustments	1,421	1,421	-	-	-
Exposure amounts considered for regulatory purposes(1)	**397,771**	**310,187**	**1,111**	**9,266**	**1,071**

Note:
Including amounts not included in Table CR4.

Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet

	Consolidated regulatory balance sheet	Consolidated regulatory balance sheet	References to components of the regulatory capital[1]
	December 31, 2021	December 31, 2020	
	In NIS million		
Assets			
Cash and deposits with banks	59,638	42,936	
Securities*	43,869	42,785	
* Of which: Investments in the equity of financial corporations, which do not exceed 10% of the share capital of the financial corporation	25	14	14
* Of which: Investments in the equity of financial corporations, which exceed 10% of the share capital of the financial corporation and which do not exceed the deduction threshold	-	-	21
* Of which: Other securities	43,844	42,771	
securities borrowed or purchased under resale agreements	1,207	1,074	
Credit to the public	216,196	192,479	
allowance for credit losses*	(3,040)	(3,761)	
* Of which: group allowance for credit losses included in tier 2	(2,154)	(1,890)	20
* Of which: Allowance for credit losses not included in the regulatory capital	(886)	(1,871)	
Credit to the public, net	213,156	188,718	
Credit to Government	2,664	3,473	
Investments in affiliated companies*	462	348	
* Of which: Investments in the equity of financial corporations, which exceed 10% of the share capital of the financial corporation and which do not exceed the deduction threshold	35	31	21
* Of which: Investment in other affiliated companies	427	317	
Buildings and equipment	3,401	2,995	
Intangible assets and goodwill*	163	164	
* Of which: goodwill	163	164	6
* Of which: other Intangible assets	-	-	7
Assets in respect of derivative instruments	5,522	6,400	
Other assets *	5,006	5,076	
* Of which: Deferred tax assets**	[2]1,650	[2]1,972	21 + 75
** Of which: Deferred tax assets excluding those attributed to timing differences	-	-	9
** Of which: Deferred tax liabilities in respect of intangible assets	- -		8
** Of which: Other deferred tax assets	1,650	1,972	
* Of which: Excess of deposits over provision	-	-	12
* Of which: Additional other assets	3,356	3,104	
Total assets	**335,088**	**293,969**	
Liabilities and Equity			
Deposits from the public	260,907	226,118	
Deposits from banks	12,534	13,107	
Deposits from the Government	346	344	
Securities loaned or sold under repurchase agreements	-	161	
Bonds and subordinated capital notes*	15,071	10,201	
* Of which: Deferred debt notes not recognized as regulatory capital	10,462	6,949	
* Of which: Deferred debt notes recognized as regulatory capital**	4,609	3,252	16b,18b
** Of which: Qualified as regulatory capital components	4,280	2,556	16a,18a
** Of which: Not qualified as regulatory capital components and subject to transitional provisions	329	696	16b,18b
Liabilities in respect of derivative instruments*	6,323	7,365	
* Of which: In respect of self credit risk	8	(16)	11

For notes see next page.

Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet (continued)

	Consolidated regulatory balance sheet	Consolidated regulatory balance sheet	References to components of the regulatory capital[(1)]
	December 31, 2021	December 31, 2020	
	In NIS million		
Other liabilities*	17,759	16,946	
* Of which: group allowance for credit losses included in tier 2	298	298	20
* Of which: Deferred tax liability attributed to pension	-	-	13
* Of which: Adjustment in respect of put option for Non-controlling interests holders in a subsidiary which is subject to transitional provisions	-	-	
Liabilities held for sale	-	-	
Total liabilities	**312,940**	**274,242**	
Equity attributed to the banking corporation's shareholders*	21,483	19,182	
* Of which: Ordinary share capital**	17,260	15,008	
** Of which: Ordinary share capital	676	676	1
** Of which: Retained earnings	17,649	15,020	3
** Of which: Accumulated other comprehensive income***	(1,065)	(688)	4
*** Of which: Net losses on the hedging of cash flows from items not presented in the balance sheet at fair value	-	-	10
*** Of which: Net loss on financial statements translation adjustments	(711)	(598)	
* Of which: Capital reserves	4,174	4,174	2
* Of which: Preference share capital**	-	-	
** Of which: Qualified as regulatory capital components	-	-	15a
** Of which: Not qualified as regulatory capital components and subject to transitional provisions	-	-	15b
* Of which: Other capital instruments**	-	-	
** Of which: Qualified as regulatory capital components	-	-	
** Of which: Not qualified as regulatory capital components and subject to transitional provisions	-	-	
Non-controlling interests*	665	545	
* Of which: Non-controlling interests that can be attributed to common equity tier 1	319	299	5
* Of which: Non-controlling interests that can be attributed to additional tier 1 capital	-	-	17
* Of which: Non-controlling interests attributed to tier 2 capital	88	86	19
* Of which: Non-controlling interests not attributable to the regulatory capital	258	160	
Total equity capital	**22,148**	**19,727**	
Total assets and liabilities	**335,088**	**293,969**	

Notes:

(1) The references are to the Table "Mapping of the components used for the presentation of the composition of the regulatory capital", presented as follows under the column "references from stage 2".

(2) In view of the relief granted by the Supervisor of Banks with respect to the efficiency plans, the balance of deferred tax assets does not include the deferred taxes in respect of the efficiency plans.

Mapping of the components used for the purpose of presentation of the regulatory capital composition

		December 31, 2021		December 31, 2020		
		In NIS million				
	Common equity tier 1: instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	References from stage 2 [(2)]
1	Ordinary share capital issued by the banking corporation and premium on ordinary shares included in Common equity tier 1	4,850	-	4,850	-	1+2
2	Retained earnings, including dividends proposed or declared subsequent to balance sheet date	17,649	-	15,020	-	3
3	Disclosed accumulated other comprehensive income and retained earnings	(1,065)	-	(688)	-	4
4	Common equity tier 1 instruments issued by the corporation qualified for inclusion in the regulatory capital in the transitional period	-	-	-	-	
5	Ordinary shares issued by consolidated subsidiaries of the banking corporation and held by third parties (minority interests)	319	-	299	-	5
6	Common Equity tier 1: before regulatory adjustments and deductions	21,753	-	19,481	-	
Common Equity tier 1 capital: regulatory adjustments and deductions						
7	Adjustments/provisions, stabilization reserves in respect of value assessments	-	-	-	-	
8	Goodwill, less deferred taxes liability	195	-	207	-	6
9	Other intangible assets, excluding mortgage service rights, less deferred taxes liability	-	-	-	-	7+8
10	Deferred tax assets the realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	-	-	-	-	9
11	Amount of accumulated other comprehensive income in respect of the hedge of cash flows from items not presented in the balance sheet at fair value	-	-	-	-	10
12	Negative differences between provisions and anticipated losses	-	-	-	-	
13	Increase in equity capital due to securitization transactions	-	-	-	-	
14	Unrealized income and losses due to changes in fair value of liabilities deriving from changes in self credit risk of the banking corporation. Furthermore, in relation to liabilities in respect of derivative instruments, all accounting debt valuation adjustments (DVA) deriving from the self credit risk of the bank should be deducted	8	-	(16)	-	11
15	Surplus deposits over provision, net of deferred tax liability to be settled if the asset is impaired or is eliminated in accordance with the reporting to the public directives	-	-	-	-	12+13
16	Investment in own ordinary shares, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)	-	-	-	-	
17	Mutual cross-investments in ordinary shares of financial corporations	-	-	-	-	
18	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	14
19	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
20	Mortgage service rights the amount of which exceeds 10% of the Common equity tier 1	-	-	-	-	

Mapping of the components used for the purpose of presentation of the regulatory capital composition (continued)

		December 31, 2021		December 31, 2020		
		In NIS million				
	Common equity tier 1: instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	References from stage 2 [(2)]
21	Deferred tax assets created by timing differences, the amount of which exceeds 10% of the Common equity tier 1	-	-	-	-	
22	Amount of mortgage service rights, deferred tax assets arising from timing differences and investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations exceeding 15% of the Common equity tier 1 of the banking corporation	-	-	-	-	
23	Of which: in respect of investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations	-	-	-	-	
24	Of which: in respect of mortgage service rights	-	-	-	-	
25	Of which: deferred tax assets created by timing differences	-	-	-	-	
26	Regulatory adjustments and additional deductions determined by the Supervisor of Banks	(289)	-	(417)	-	
26A	Of which: in respect of investments in the equity of financial corporations	-	-	-	-	
26B	Of which: in respect of mortgage service rights	-	-	-	-	
26C	Of which: additional regulatory adjustments to Common equity tier 1	-	-	-	-	
	Of which: adjustments in respect to the efficiency plan	(289)		(417)		
	Regulatory adjustments to Common equity tier 1 subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	
	Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
27	Deductions applying to Common equity tier 1 since the amounts of additional tier 1 capital and of tier 2 capital are insufficient to cover the deductions	-	-	-	-	
28	Total regulatory adjustments and deductions from Common equity tier 1	(86)	-	(226)	-	
29	Common equity tier 1	21,839	-	19,707	-	
Additional tier 1 capital: instruments:						
30	Additional tier 1 share capital instruments issued by the banking corporation and premium on these instruments	-	-	-	-	
31	Of which: classified as equity capital in accordance with the reporting to the public directives	-	-	-	-	15a+16a
32	Of which: classified as a liability in accordance with the reporting to the public directives	-	-	-	-	
33	Additional tier 1 capital instruments issued by the banking corporation qualified for inclusion in the regulatory capital for the transitional period	178	178	356	356	15b+16b
34	Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors	-	-	-	-	17
35	Of which: Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from additional tier 1 capital	-	-	-	-	
36	Additional tier 1 capital before deductions	178	178	356	356	

Mapping of the components used for the purpose of presentation of the regulatory capital composition (continued)

		December 31, 2021		December 31, 2020		
		In NIS million				
	Common equity tier 1: instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	References from stage 2 [(2)]
Additional tier 1 capital: deductions						
37	Investment in own capital instruments included in additional tier 1 capital, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)	-	-	-	-	
38	Mutual cross-investments in capital instruments included in additional tier 1 capital	-	-	-	-	
39	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
40	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
41	Additional deductions determined by the Supervisor of Banks	-	-	-	-	
41A	Of which: in respect of investments in the capital of financial corporations	-	-	-	-	
41B	Of which: additional deductions from tier 1 capital not included in the framework of Section 41(A)	-	-	-	-	
	Deductions from additional tier 1 capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	
	Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
42	Deductions applying to additional tier 1 capital because the amount of tier 2 capital is insufficient to cover the deductions	-	-	-	-	
43	Total deductions from additional tier 1 capital	-	-	-	-	
44	Additional tier 1 capital	178	178	356	356	
45	Tier 1 capital	22,017	178	20,063	356	
Tier 2 capital: Instruments and Provisions						
46	Instruments issued by the banking corporation (not included in tier 1 capital) and premium on such instruments	4,280	-	2,556	-	18a
47	Tier 2 capital instruments issued by the banking corporation, which are qualified for inclusion in the regulatory capital during the transitional period	151	151	340	340	18b
48	Tier 2 capital instruments issued by subsidiary companies of the banking corporation to third party investors	-	-	-	-	19
49	Of which: Tier 2 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from tier 2 capital	-	-	-	-	
50	Group allowances for credit losses before the related tax effect	2,452	-	2,188	-	20
	minority interest in a subsidiary	88	-	86	-	
51	Tier 2 capital before deductions	6,971	151	5,170	340	

Mapping of the components used for the purpose of presentation of the regulatory capital composition (continued)

		December 31, 2021		December 31, 2020		
		In NIS million				
	Common equity tier 1: instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	References from stage 2 (2)
Tier 2 capital: deductions						
52	Investment in own tier 2 capital instruments, held directly or indirectly (including commitment to purchase instruments subject to contractual obligation)	-	-	-	-	
53	Mutual cross-holdings of tier 2 capital instruments of financial corporations	-	-	-	-	
54	Investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
55	Investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
56	Additional deduction determined by the Supervisor of Banks	-	-	-	-	
56A	Of which: in respect of investments in the capital of financial corporations	-	-	-	-	
56B	Of which: additional deductions to tier 2 capital	-	-	-	-	
	Regulatory adjustments to tier 2 capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	
	Of which: investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
57	Total deductions to tier 2 capital	-	-	-	-	
58	Tier 2 capital	6,971	151	5,170	340	
59	Total capital	28,988	329	25,233	696	
	Total weighted average of risk assets in accordance with the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	
	Of which: deferred tax assets the realization of which is based on the future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	-	-	-	-	
	Of which: deferred tax assets arising from timing differences	-	-	-	-	
60	Total weighted average of risk assets	(3)215,321	-	(3)193,232	-	
Capital ratios and capital conservation buffers (percentages)						
61	Common equity tier 1	10.14	-	10.02	-	
62	Tier 1 capital	10.23	-	10.55	-	
63	Total capital	13.46	-	13.06	-	
64	Not relevant	-	-	-	-	
65	Not relevant	-	-	-	-	
66	Not relevant	-	-	-	-	
67	Not relevant	-	-	-	-	
68	Not relevant	-	-	-	-	

Mapping of the components used for the purpose of presentation of the regulatory capital composition (continued)

		December 31, 2021		December 31, 2020		
		In NIS million				
	Common equity tier 1: instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	References from stage 2 [2]
Minimum requirements determined by the Supervisor of Banks						
69	Minimum Common equity tier 1 ratio determined by the Supervisor of Banks	(1) 8.16	-	(1) 8.18	-	
70	Minimum Tier I capital ratio determined by the Supervisor of Banks	(1) 8.16	-	(1) 8.18	-	
71	Overall capital ratio determined by the Supervisor of Banks	(1) 11.50	-	(1) 11.68	-	
Amounts below the deduction threshold (before the averaging of risk)						
72	Investment in the capital of financial corporations (except for banking corporations and their subsidiary companies) which does not exceed 10% of the ordinary share capital issued by the financial corporation, and which are below the deduction threshold	125	-	246	-	14
73	Investment in Common equity tier 1 of financial corporations (except for banking corporations and their subsidiary companies) which exceed 10% of the ordinary share capital issued by the financial corporation, and which are below the deduction threshold	35	-	31	-	21
74	Mortgage service rights (net of deferred tax liability)	-	-	-	-	
75	Deferred tax assets arising from timing differences that are below the deduction threshold	1,650	-	1,971	-	
Ceiling for inclusion of provisions in tier 2						
76	Provision qualified for inclusion in tier 2 considering exposure under the standard approach, before implementation of the ceiling	2,859	-	3,519	-	
77	Upper limit for inclusion of a provision in tier 2 under the standard approach	2,452	-	2,188	-	
78	Provision qualified for inclusion in tier 2 considering exposure under the internal ratings-based approach, before implementation of the ceiling	-	-	-	-	
79	Upper limit for inclusion of a provision in tier 2 under the internal ratings-based approach	-	-	-	-	
Capital instruments not qualified as regulatory capital that are subject to the transitional instructions						
80	The present ceiling amount for instruments included in Common equity tier 1 that are subject to the transitional instructions (according to the transitional provisions in Directive No. 299)	-	-	-	-	
81	Amount deducted from Common equity tier 1 due to the ceiling	-	-	-	-	
82	The present ceiling amount for instruments included in additional Common equity tier 1 that are subject to the transitional provisions (according to the transitional provisions in Directive No. 299)	178	-	356	-	
83	Amount deducted from additional Common equity tier 1 due to the ceiling	1,603	-	1,425	-	
84	The present maximum amount for instruments included in tier 2 capital that are subject to the transitional provisions (according to the transitional provisions in Directive No. 299)	151	-	340	-	
85	Amount deducted from tier 2 capital due to the ceiling	-	-	-	-	

Notes:

(1) With an addition of 0.16% (December 31, 2020: 0.18%), in accordance with the additional capital requirements with respect to housing loans – see note 25 to the financial statements.

(2) The references are to the Table "Presentation of components comprising the regulatory capital taken from the regulatory consolidated balance sheet", presented above, to the figure presented under the column "References to components of the regulatory capital".

(3) The total weighted balances of the risk assets have been reduced by NIS 343 million (December 31,2020: NIS 439 million) due to adjustments in respect to the efficiency plan.

Addendum B – Securitization

IDB Bank and the Bank (hereunder in this item: ”the Group”) invest in several types of securitized securities, including mortgage-backed securities issued by agencies in the United States and loan-backed securities (CLOs). The Group is an investor in securitized securities and not the issuer of any securitized securities. Exposure of the Group relates to the wholesale portfolio and is of a traditional securitization nature.

For the purpose of averaging the risk of securitization exposure, the Group makes use of ratings published by the international rating agencies Moody’s, Fitch and S&P.

For further details, see Note 12 to the financial statements and ”Investment in asset backed securities” under ”Developments of assets and liabilities” above.

The securitization exposure included in the following table does not include mortgage backed securities issued by GNMA, FNMA and FHLMC. This, due to the fact that all layers of the said securities reflect identical credit risk.

Securitization exposure in the banking book (SEC1)

	Total exposure	
	December 31	
	2021	2020
	in NIS millions	
Asset-backed securities (ABS):		
Collaterized bonds CLO	1,158	1,111
Total asset-backed securities	**1,158**	**1,111**
Total mortgage and asset-backed securities	**1,158**	**1,111**

	December 31			
	2021		2020	
	Exposure	Capital requirements	Exposure	Capital requirements
		11.5%		11.5%
	in NIS millions			
Risk weights:				
20%	1,158	27	1,111	26
Total	**1,158**	**27**	**1,111**	**26**

Glossary

Management quality	Assessment of the appropriateness and effectiveness of risk management (effectiveness of the controls).
Key Risk Indicator	Means/pointer showing the risk exposure situation in relation to the risk.
Failure event	An event where risk is realized, whether or not causing damage to the Bank.
Gross credit	Balance sheet or off-balance sheet credit, before credit risk mitigation (CRM), before conversion to credit (CCF) and before allowances for credit losses.
Off-balance sheet credit	Includes: unutilized binding facilities, guarantees, documentary credit and derivatives. Binding facilities– any presentation by the corporation to its customer for the granting of credit (balance sheet and/or off-balance sheet) whether in writing or orally or in another manner of conduct where it can be expected that a reasonable customer would rely on such presentation as one which binds the Bank.
Balance sheet credit	Credit (to the public, governments) and bonds.
Collateral	Different assets (marketable and nonmarketable) designated to secure the repayment of customer debts, when the customer defaults on the current repayments agreed between him and the Bank.
Credit Risk Mitigation (CRM)	Items offsetting risk permitted according to the rules of Basel II (mainly: liquid collateral pledged as required). According to these rules, the Bank, when computing the capital requirements, may reduce its credit exposure to the counterparty, thus taking into consideration the effect of the collateral.
Allowances for credit losses	A provision created by the Bank to cover possible losses on its customer indebtedness. The Bank of Israel guidelines require that specific and group provisions should be created. Allowance for credit losses on a specific basis – an allowance required to cover expected credit losses in respect of debts examined on a specific basis and found to be impaired. Allowance for credit losses on a group basis – an allowance in respect of large groups of debts (performing and nonperforming) including allowances for credit losses in respect of housing loans measured by the "extent of the arrears period" method.
Debt under special mention	A debt having potential weaknesses that require special attention by the Management. If such weaknesses remain unattended, the result might be deterioration in the prospects of repayment of the credit, or in the Bank's status as a creditor.
Substandard debt	A debt insufficiently secured by the present value based on the collateral and the repayment ability of the debtor, creating a clear possibility that the Bank will sustain a certain loss if the deficiencies are not rectified. It is required that the weakness endangering the repayment of the debt should be well defined.
Impaired debt	A debt the Bank estimates it will not be able to collect the amounts due to it and in the due dates per the debt agreement.
Liquidity coverage ratio (LCR)	The ratio of total high quality liquid assets to total net cash outflows during the next thirty calendar days.
Business goal	A defined business target in quantitative or qualitative terms, subject to restrictions of the risk appetite.
Recorded amount	The balance of a debt, including recognized accrued interest, unamortized premium or discount, differed commissions or deferred costs charged to the debt and not yet amortized, after deduction of any amount written off accounting wise. Non-recognized interest, or interest which had been recognized in the past and reversed at a later date, should not be included in the recorded amount.
Uniform macro-economic stress test	A stress test published by the Supervisor of Banks, based on a uniform scenario for all the banking industry and on macro-economic parameters formed by the Regulator
Sensitivity tests	A method which assesses the effect of a change in a single risk factor, or in a number of risk factors, on the financial condition of the banking corporation (for example: in market risk – steep decline in interest rate; in credit risk – steep decline in housing prices).
Restriction (internal)	A statement determined by the Bank, setting out a limit to activity within the framework of the risk appetite.

Glossary (continued)

Capital outline	A detailed plan of the capital ratios forecast for the coming years, which includes the assumptions used for the forecast, a description of the expected implications in the capital layers and capital ratios, sensitivity analysis regarding the principal risks, and conformity by the Bank with the capital targets. The capital outline serves as a basis for the determination of a recommendation to the Management and to the Board of Directors regarding the capital targets of the work plan, including the capital buffer, the risk asset budget, capital issuance and dividend distribution.
Over the counter (OTC) derivatives	Transactions in derivatives not traded on a formal stock exchange, to which the Bank is a party.
Monitoring of capital ratios	Monitoring changes in risk assets and in the capital base of the Group, and an assessment of attaining the capital targets as determined by the Board of Directors.
Alert levels	Intended to indicate exposure to risk when it reaches a certain level below the stated restriction.
Risk profile	Assessment of the combined risk inherent in the exposures and in the activity of the Bank
Risk appetite	Reflects the level of risk a corporation is ready to accept, consistently with its business strategy, capital planning, liquidity planning and financing resources of the corporation. The risk appetite includes quantitative restrictions and qualitative goals, which outline the determination of the group business policy in the various risk fields, and comprises a central tool of the Board of Directors for the supervision and control of the risk profile of the corporation.
Available-for-sale portfolio	Securities not classified as bonds held to maturity or as trading securities.
Trading portfolio	Composed of positions in financial instruments held with the intension of trading, for the purpose of resale within a short period of time, and/or with the intent of earning gains from actual or expected changes in prices in the short-term or of realizing arbitrage gains. In order for a financial instrument to be considered part of the trading portfolio, it has to be free of any encumbrance on its marketability, or that it may be hedged in full.
Held-to –maturity portfolio	Securities in respect of which the Bank has the intention and ability to hold them for a long period of time/to maturity. The portfolio is stated at the rate of return to maturity inherent therein since purchase date.
Stress tests	A risk management method used to assess the potential effects of a specific event and/or a change in a set of financial variables on the financial condition of a banking corporation. Traditionally, the focus of stress tests is on exceptional events though reasonable.
Credit conversion factors (CCF)	Conversion of off-balance sheet items to credit equivalents – according to the standard approach of Basel II, off-balance sheet items are converted to equivalent credit exposure by means of credit conversion coefficients
Credit support annex (CSA)	An Annex to the ISDA which regularizes the matter of collateral regarding derivative transactions against the counterparty. This Annex determines a threshold amount reflecting the maximum exposure which each of the counterparties is ready to accept without collateral.
International Swaps and Derivatives Association (ISDA)	An international agreement which allows the setting off of liabilities and mutual requirements stemming from over the counter derivative transactions, in the case of insolvency of a counterparty.
Foreign Account Tax Compliance Act (FATCA)	In order to reduce tax evasion by American taxpayers, the Foreign Account Tax Compliance Act (FATCA) was enacted in 2010 in the United States. Under the FATCA provisions, financial bodies outside the US are required to identify and report to the U.S. Tax Authorities, any U.S. citizen or any U.S. resident having a financial account with them. This Regulation entered to effect on July 1, 2014. The Regulation is being implemented in many countries, including Israel, within the framework of an inter-state treaty signed by Israel and the United States.